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OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE MISSION TO THE FAR EAST

NOVEMBER 13, 1985

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LETTER OF TRANSMITTAL

SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
Washington, DC, November 13, 1985.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Longworth House Office Building,
Washington, DC.

DEAR MR. CHAIRMAN: I am pleased to transmit to you this report on the Committee on Ways and Means August trade mission to the Far East. This report is divided into country reports and contains a section which highlights issues and conclusions. A detailed appendix has been included to set forth the documents and transcripts which formed the basis for our discussions.

The Subcommittee on Trade conducted this extensive fact-finding mission through the countries of East and South Asia between August 1 and 24, 1985 for the purpose of reviewing bilateral and regional economic and trade issues. Nine Members of the full Committee participated in the mission. In addition, Mr. Max Friedersdorf, Assistant to the President for Legislative Affairs, joined our delegation.

During our visits to Canada, Japan, China, India, Nepal, Thailand, and Hong Kong, the delegation visited twelve cities, conducted seven press conferences and participated in over fifty meetings and official functions. In each capital, the delegation held constructive and frank talks with heads of government, parliamentary leaders, key trade officials, resident U.S. business-representatives and U.S. Embassy personnel. In addition, the delegation toured factories, development zones, and port facilities in several countries in order to view firsthand their production techniques and industrial capacity. The visit was accorded a great deal of importance by foreign leaders and media in each country.

As is our custom, Members and staff prepared extensively prior to our departure for the mission. In addition to numerous briefings by Administration officials and consultations with Asian Ambassadors and diplomats, the subcommittee held a public hearing on trade with Pacific Rim countries on July 18, 1985. Testimony was received from the U.S. Trade Representative, and the Secretary of Commerce, as well as from U.S. business leaders with direct business experience in Asia.

The primary purpose of our mission was to examine opportunities for improving commerce and trade with our Asian trading partners. As you well know, the Subcommittee is currently considering numerous legislative proposals dealing with our trade rela-

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tions with these countries. In Japan, our goal was to express to Japanese leaders the serious Congressional concerns over the bilateral trade imbalance, as well as the necessity to open their markets in an immediate and dramatic way.

With two-way trade of $175 billion in 1984—or nearly one-third of total U.S. trade—the East Asian and Pacific region has emerged as our largest regional trading partner. In recent years, U.S. trade with countries of the Pacific Rim has surpassed our trade with every other region of the world. In addition to the growing importance of the region in trade terms, U.S. direct investment in Pacific Rim countries has increased in recent years and totaled nearly $30 billion in 1984. Moreover, over one-half of the world's population lives in this economically dynamic region.

As the trip report notes, the U.S. market is an increasingly important market for exports from the region, while the openness of Pacific Rim markets varies widely from country to country. Selectively high tariffs; import bans, quotas, and nontariff barriers; counterfeiting and other problems in the protection of intellectual property rights; investment restrictions; and limitations on services such as banking and insurance are among the barriers faced by U.S. firms attempting to export or do business in countries of East Asia and the Pacific. It is also important for Japan and the Newly Industrialized Countries (NIC's) to open their market to the developing countries. While the U.S. market now absorbs 58 percent of the processed exports of the LDC's, Japan absorbs just 8 percent.

Following are my summary views on each country we visited:

CANADA

We began our mission in Canada, holding talks with Canadian trade officials, businessmen and provincial leaders in Vancouver, British Columbia. The stop in Vancouver was included in the itinerary at the invitation of the Canadian Government specifically to discuss issues surrounding H.R. 2451, my bill on resource input subsidies.

In the Vancouver meetings, Canadian participants expressed concern over the potential adverse impact of the bill on Canadian lumber and other natural resources. I clearly explained that the bill is not aimed at Canadian lumber, but, rather, it is generic: it covers any type of natural resource subsidy from any source. The reason that Canadian lumber is often identified with the bill is because Canadian provinces sell timber in a noncompetitive system. Many in the U.S. believe that this nonmarket system results in a price which is well below fair market value.

As I told the Canadian representatives, I strongly believe that our international trading system is severely threatened by government subsidy practices. I will continue to work for passage of H.R. 2451. However, I will work with and listen to the Canadian Government and industry to ensure even-handed application of the bill so that it will not be unfair to Canadian interests.

JAPAN

Our visit to Japan was the most important stop on our itinerary. Against the backdrop of unprecedented trade friction between

Japan and the United States, our visits to Tokyo and Sendai allowed Members to express to Japanese government and business leaders, both at the national and local level, the serious Congressional concern over the growing bilateral trade imbalance and Japan's growing trade imbalance with the rest of the world.

In lengthy and substantive meetings with Prime Minister Nakasone, Foreign Minister Abe, Diet Members, business leaders, and others, the delegation urged immediate and dramatic action to open Japanese markets to U.S. and other foreign products and services. The delegation stressed the shift from an economic to a political issue in both countries and the necessity to show concrete results in the short term.

I specifically urged the Prime Minister to set a goal for the reduction of Japan's trade surplus with the United States to around $15 billion over the next five years. I also suggested to the Prime Minister that Japan consider domestic policy changes to stimulate domestic demand and consumption, particularly in such areas as housing, consumer credit and recreation. I am pleased to report that Prime Minister Nakasone appeared willing to give these suggestions serious consideration.

PEOPLE'S REPUBLIC OF CHINA

Although the Subcommittee visited Japan two years ago, we have not made an oversight visit to China, which has just implemented major economic reforms, since 1981. Our economic relations with the People's Republic has experienced remarkable growth in recent years. After Japan and Hong Kong, the United States is now China's third largest trading partner. A record level of $6.4 billion in bilateral trade was achieved in 1984. Further, U.S. investment in China continues to grow. With frequent scientific, cultural, educational and diplomatic exchanges, overall U.S.-China relations have been expanded and strengthened.

Members of the delegation were impressed by the rapid modernization and development evident in China today. Beijing has undergone a remarkable transformation since our last visit, with new hotels, office buildings and transportation systems now in place. In South China, construction projects and infrastructure improvements are visible everywhere.

The delegation's meetings with high level Chinese officials, including Vice Premier Tian Jiyun, and with U.S. business representatives and bankers, confirmed that China's economic development and modernization are closely tied to its "opening" to foreign trade and investment. For China's broad reforms to succeed, it will have to continue to rely on foreign investment and the transfer of technology. In fact, U.S. Embassy officials pointed out that U.S. exports of manufactured products and technology now account for more than 80 percent of total U.S. exports to China. I strongly believe that further relaxation of our export control policies is necessary with respect to high technology exports to China.

Our visit to Guangzhou and Shenzhen vividly demonstrated the degree to which China is seeking foreign investment. Through the use of Special Economic Zones, China is aggressively encouraging development, investment, and technology transfer with favorable

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tax rates, operating conditions and other incentives. United States participation in oil exploration, nuclear energy development and construction are examples of areas in which U.S. companies are committed in China today.

Propsects are indeed bright for U.S. business in this huge market. However, long-term success in U.S. trade relations with China will undoubtedly be conducted in competition with China's economic relations with other Pacific Rim nations, and in particular, Japan. Moreover, the textile issue is a major source of friction with the Chinese. In strongly opposing the Jenkins bill, the Chinese leaders argued that the legislation not only violates international law and trade agreements, but also is unfair to Asian producers. They clearly signaled to us that U.S. goods would be subject to retaliation. In fact, I believe the Chinese have already backed off U.S. purchases. This issue threatens to set back the progress we have made since the normalization of our bilateral relations with the People's Republic of China.

THAILAND

Our talks in Bangkok with senior Thai officials and industry and labor leaders were dominated by the textile issue. Thai officials noted that Thailand has long been a key ally in Southeast Asia and has frequently supported the United States on international political issues. Having fought with the United States in Korea and Vietnam, Thailand now finds itself a "front line" state, absorbing nearly 250,000 refugees from Kampuchea, while concerned about the buildup of Vietnamese troops on the Northern border.

With an economy that is driven by private enterprise, Thailand has welcomed U.S. trade and investment. Moreover, Thai officials noted that falling commodity prices and the uncertain international economic environment have been factors in Thailand's recent economic difficulties. At the same time, they believe that protectionist measures by the United States, particularly in the textiles and apparel field, will have a potentially destabilizing effect on the Thai economy and government, which depends on the U.S. market for substantial export earnings. Members also raised the issue that recent tariff increases by the Thai Government have put U.S. agricultural and manufactured products at a disadvantage in the Thai market. I appreciated, however, the subsequent announcement of tariff cuts on imported cotton.

ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

Our visit to Bangkok also afforded us an opportunity to meet with representatives of the Association of Southeast Asian Nations (ASEAN) for discussions on trade and investment relations with these six countries. While overall economic relations are excellent, ASEAN members are very concerned about protectionism in the United States. U.S. business representatives also have some concerns about the trade and investment policies of ASEAN countries. We appreciated this opportunity to meet with the distinguished leaders of this regional group, which is one of the world's economic success stories in agriculture, industry and trade.

Our discussions in Beijing and Bangkok reaffirmed my view that enactment of the textile quota legislation would seriously impair our trade and diplomatic relations with key Asian trading partners. I call your attention to my letter to the Speaker, printed in the appendix and cosigned by Mr. Pease and Mr. Frenzel, that was delivered upon our return from the Far East. This reflects our findings with respect to the discriminatory effects of the proposed legislation.

INDIA

It became clear during our trip preparation that this would be an opportune time for a U.S. trade delegation to visit the subcontinent, and, in particular, India. The visit to New Delhi and Bombay afforded Members of the delegation an opportunity to hold talks with the new leadership on key questions of development and trade at a time when India's commercial activity and population are growing very rapidly. Under the leadership of Prime Minister Rajiv Gandhi, significant policy changes have occurred in the direction of economic liberalization and industrial modernization, including a freer flow of foreign investment, technology and goods.

Although the United States is already India's largest trading partner, it is clear that India wants closer commercial ties with the United States. However, I was dismayed to learn that the Indian Government has historically assigned a high priority to a policy of industrial and agricultural import substitution. This, I believe, is a grave mistake. Other issues in Indo-United States commercial relations are: a cumbersome import licensing system, high tariffs on a variety of imported products, foreign investment restrictions, and India's opposition to a new round of multilateral trade negotiations.

The delegation expressed strong support to the Indian Government for early implementation of the recently concluded Memorandum of Understanding on Indo-United States technology transfer. It is important to note that India's emerging middle class of nearly 100 million people represents an important new market for American business, especially the high technology area. Despite its close relationship with India, the Soviet Union is not in a position to help in the industrial development or transfer of technology to India. As the Japanese move into the Indian market, both the United States Government and the business community should take the lead in India's technological and trade development.

NEPAL

Nepal, located between China and India, has some of the world's highest mountains and most beautiful terrain. Our meetings with senior Nepalese officials in Kathmandu, including King Birendra and the Prime Minister, provided valuable insights into the problems facing a least developed developing country in the areas of infrastructure and economic development. As one of our closest and most reliable friends in the Third World, there are no significant bilateral problems in the United States-Nepal relations. However, with a desperately poor population, Nepal is a significant recipient

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of United States development assistance and is the site of our largest Peace Corps contingent.

HONG KONG

The delegation concluded its mission in Hong Kong, a key Asian center for U.S. trade and investment. The economic ties between the United States and Hong Kong are exceptionally strong, due in part to its dedication to free trade and free market principles. Hong Kong does not levy any import duties, nor does it maintain any restrictions in imports. The Secretary for Trade and Industry, Mr. Eric Ho, reported that Hong Kong now provides a base for over 800 U.S. firms and welcomes foreign investment. Hong Kong also has strict intellectual property right laws and their enforcement efforts are well recognized.

Two key issues were present in our meetings: textiles and the Sino-British Joint Declaration on the Future of Hong Kong. With respect to textiles, Hong Kong officials strenuously opposed the textile quota legislation, arguing that the bill violates the GATT, the MFA, and bilateral trade agreements. Most importantly, Hong Kong officials stated that this legislation is discriminatory, and would end the multilateral discipline presently governing world trade in textiles.

With respect to the Sino-U.K. Agreement, I am pleased to report that confidence and stability has returned to Hong Kong affairs following the signing of the Agreement in December, 1984. This agreement allows restoration of Chinese sovereignty in 1997, and provides Hong Kong with a high degree of autonomy for 50 years after reversion. As you know, the United States welcomed this agreement. I believe this has now put to rest the ambivalence on Hong Kong's future among political and business leaders and represents an important step toward improved commercial cooperation with the People's Republic of China and the Pacific Basin in general.

Mr. Chairman, the Pacific region is one of the world's most dynamic regions in economic development and trade today; however, the region is at a critical crossroads. If current trends in trade imbalances, specifically the unprecedented U.S. trade deficit and inflated exchange rate, lead to U.S. enactment of protectionist legislation, this would severely limit the growth prospects of commerce in the Pacific Basin and undermine U.S. competitiveness in the region.

While our trading partners in the Far East must continue to open their markets to U.S. goods and services and reduce government subsidies, the United States must also take action to reduce the federal budget deficit and enact positive legislation to improve the conditions and level the playing field for U.S. businesses. Our highest priority should be to make America competitive in the world marketplace. In this regard, areas for legislative consideration in trade would be: elimination of government subsidies for industries and products in international trade, equalization of business tax burdens, liberalization of export licensing and financing, further strengthening of trade laws (including sections 201 and 301), and increase the protection for intellectual property rights. The en-

actment of restrictive trade measures such as the textile quota bill will not only invite retaliation, but also will deny to the United States one of the greatest markets and most dynamic regions on earth. The end result will be a reduction in the standard of living for everyone.

Finally, I would like to express my appreciation to the State Department for its outstanding assistance to the delegation both in Washington and through our embassies in the Asian capitals. Our diplomatic corps is truly professional and a credit to our Nation.

Sincerely,

SAM M. GIBBONS,
Chairman.

Enclosure.

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REPORT ON TRADE MISSION TO THE FAR EAST

Highlights and Conclusions

● Pacific Basin economic development and trade is at a critical crossroad. As the most economically dynamic region in the world, the Pacific Basin, especially East Asia, has emerged as the largest potential U.S. market. However, continuation of Pacific economic growth and export opportunities for the United States are jeopardized by current trends in trade imbalances, especially the unprecedented U.S. trade deficit, inflated exchange rates, and protectionist policies.

● The United States must reduce its Federal budget and foreign trade deficits and reduce the value of the dollar in order to make effective improvements in productivity and to enhance America's competitiveness in the international marketplace.

● With respect to U.S. competitiveness in the Pacific market, U.S. businesses must have reciprocal access to markets in the region. Reciprocal market opportunities and a "level playing field" are essential. Injurious foreign government subsidies, nontariff barriers and unfair trade practices must be eliminated. We cannot afford to accept a discriminatory environment for our businesses in the future. All parts of a market should be open including agriculture, transportation, communications, financial and all other services of economic significance.

● American business interests in the Pacific region should become more aggressively competitive to gain and retain its market share. Appropriate private-government partnerships should be enhanced to improve the U.S. position in the Pacific markets.

● Japan should proceed immediately on a result-oriented, market-opening, import increasing program that will sharply reduce its trade surplus with the United States over the next 5 years.

● Market opening effects of Japan would provide significantly more export opportunities to U.S. businesses if Japan were to consider domestic policy changes that would facilitate the increase of Japanese expenditures designed to raise consumer living standards. Changes in Japanese policy affecting the areas of housing, recreation, consumer credit and taxation would stimulate domestic demand and consumption and would likely provide significant new sales opportunities in a more open economy for foreign, including U.S. exporters.

● Japan should also open its domestic market to the processed products of less developed nations. Currently, the U.S. market absorbs nearly 58 percent of the processed exports of the LDC's, whereas Japan takes only 8 percent. The export-induced growth of the developed countries of Asia has relied too much in the past on

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the relative openness of the U.S. market while other OECD markets have been comparatively closed.

● China's economic development and modernization are closely tied to its "opening" to foreign trade, investment and technology. For China's broad reforms to succeed, continued reliance on foreign investment and the transfer of technology is essential. U.S. exports of manufactured products and technology now account for more than 80 percent of total U.S. exports to China. Further relaxation and streamlining of our export control policy is appropriate with respect to U.S. nonstrategic, high technology exports to China.

● Through the use of Special Economic Zones (SEZ's) China is aggressively encouraging development, investment, and technology transfer with favorable tax rates, operating conditions and other incentives. Although the SEZ's provide important, new opportunities for U.S. participation in the Chinese economy, greater access to the Chinese domestic market and improved prospects for profitable investment in the Chinese economy are in order.

● United States participation in oil exploration, coal mining, nuclear energy development and construction are examples of areas in which U.S. companies are committed in China today. Efforts to develop China's energy resources should continue with vigorous support from the U.S. Government and business community.

● While prospects are bright for U.S. business in this potentially large market, long-term success in U.S. trade relations with China will undoubtedly be conducted in competition with China's economic relations with other Pacific Rim nations, and in particular Japan—China's largest trading partner. American business should be assured a fair and competitive access to this market.

● China should move to resolve market access problems for U.S. businesses by making available reasonably priced office space, equipment and residential facilities. The United States and China should also reconcile the methodological differences in compiling statistical data on bilateral trade and conclude a bilateral investment treaty as soon as practicable.

● The textile issue is a major source of friction with the Chinese. In strongly opposing textile quota legislation as unfair to Asian producers, China clearly signaled that U.S. goods would be subject to retaliation if access to the U.S. market was further restricted.

● With respect to textile trade, three points are made. First, China and other Asian suppliers should avoid any surges in its exports in any given product line, which may lead to sharp reductions in American production and employment and threaten to cause market disruption. Second, China should continually try to diversify its exports, both within the textile product sector and among other nontextile product sectors. Third, both China and the United States should press forward for prompt and meaningful renegotiation of the Multi Fiber Agreement (MFA) to ensure a mutually beneficial multilateral framework governing trade in textile.

● In India, the leadership of Indian Prime Minister Rajiv Gandhi has made significant policy changes in the direction of economic liberalization, industrial modernization and an openness to freer flow of foreign investment, technology and goods. However, issues such as a cumbersome import licensing system, high tariffs on certain American imports, continued restrictions on foreign in-

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vestment, and opposition to a new round of multilateral trade talks still remain. India should move quickly to eliminate these restrictions to healthy trade relations and seek to become a full participant in the new GATT Round.

● It is clear that acquiring U.S. technology is a top priority of the Indian leadership. As Japan moves into the Indian market, both the U.S. Government and the business community should take the lead in becoming a major partner in India's technological and trade development.

● With an economy that is driven by private enterprise, Thailand has welcomed U.S. trade and investment. Thai officials noted that falling commodity prices and the uncertain international economic environment have been factors in Thailand's recent economic difficulties. They also believe that protectionist measures by the United States, particularly in the textiles and apparel field, will have a potentially destabilizing effect on the Thai economy and government, which depends on the U.S. market for substantial exports earnings. The delegation noted that recent tariff increases by the Thai Government have put U.S. agricultural and manufactured products at a disadvantage in the Thai market. The Thai economy, as well as other members of ASEAN, are too dependent on the openness of the U.S. economy for export-driven growth. Further opening of other industrial economies such as the Japanese and the European Community would be more equitable in encouraging economic growth in ASEAN. Likewise, closer cooperation with ASEAN countries to avoid surges or subsidized exports that may unduly destabilize sectors of the U.S. market are in order.

● With the agreement extending Chinese sovereignty over Hong Kong in 1997, confidence and stability has returned to Hong Kong affairs. While this agreement may be important for a possible future resolution of the People's Republic of China-Taiwan issue, the short-term effects of the Hong Kong economy on China's development have a greater immediate impact. A large share of the foreign investment in the SEZ's has been from Hong Kong; China, in turn, has invested heavily in Hong Kong by establishing banks and trade corporations.

● While Hong Kong's economy is open and competitive, its reliance on the openness of the U.S. market and potential for disruption in sectors such as textiles calls for more consideration of its impact on U.S. production and jobs. The MFA discussions would be a good place to demonstrate this concern and awareness of U.S. industrial economic problems.

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Canada

Overview

On August 2, 1985, the delegation had a series of discussions in Vancouver, British Columbia, with Canadian and provincial government officials and representatives of the Canadian forest industry, focusing on the potential impact that enactment of H.R. 2451, the natural resource subsidy bill, would have on Canada and its forest industry. The delegation had accepted an invitation from Premier Bennett of British Columbia and from Canadian Trade Minister Kelleher to visit Vancouver for the express purpose of discussing this bill.

H.R. 2451, introduced by Chairman Gibbons, would amend the definition of subsidy in the U.S. trade laws so that when an exporting country provides its manufacturers with natural resources at below fair market value, that government assistance would be a subsidy upon which a countervailing duty could be levied if the subsidy injures or threatens injury to U.S. producers of the like products.

The bill's definition of subsidy includes the situation whereby a government provides the right to remove a natural resource, such as timber, at a price below market value. This provision has caused a great deal of concern in Canada because "stumpage fees", or the right to remove timber, in Canada are generally established by provincial governments, which not only own most of the timber, but also sell the rights to remove it in a noncompetitive manner. Many in the United States believe that this nonmarket system results in a price which is well below fair market value and allows Canadian lumber to be sold in the U.S. market at artificially low prices.

A number of presentations were made to the delegation by industry and government experts to explain the Canadian stumpage system and to attempt to convince the delegation that it is not a subsidy.

United States-Canadian Trade Relations

Overall bilateral trade relations

Bilateral trade between the United States and Canada exceeded $113 billion in 1984, making our bilateral trade relationship the largest of any two nations in the world. Each is the other's largest trading partner with Canada receiving over 21 percent of U.S. exports and sending about 75 percent of its exports to the United States in 1984. Although Canada enjoyed a healthy surplus of about $20 billion in 1984, much of this was offset by the favorable balance the United States has in services payments such as profit remittances and royalties.

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Several steps have been taken in recent months in an effort to remove existing impediments to trade between our two counties. At the Quebec Summit on March 17-18, President Reagan and Prime Minister Mulroney issued a trade declaration which gave the highest priority to finding ways to reduce and eliminate existing barriers to trade. The declaration directed the U.S. Trade Representative and the Canadian Trade Minister to establish a bilateral mechanism to chart all possible ways to accomplish this objective and to report back in 6 months. The declaration also directed that efforts be undertaken over a 12-month period to resolve specific impediments to trade, including: (1) government procurement and funding programs; (2) tariff barriers; (3) barriers to trade in high technology goods and services; (4) protection of intellectual property rights; and (5) restrictions on energy trade. The two leaders also pledged themselves to support the GATT and a new round of multilateral trade negotiations, as well as "to halt protectionism in cross-border trade in goods and services."

The Canadian Government has long been concerned about the possibility that protectionism might restrict the access of Canada's exports to the U.S. market. Consequently, and in furtherance of the trade declaration of the Quebec Summit, Prime Minister Mulroney on September 26 announced that he had spoken to President Reagan and expressed interest in pursuing a new trade agreement with the United States with the objective of achieving "mutually beneficial reductions in tariff and non-tariff barriers between our two countries".

The Canadian initiative was warmly received by President Reagan, who indicated that the administration would soon be consulting with the Congress in accordance with section 102 of the Trade Act of 1974, as amended by the Trade and Tariff Act of 1984. Under that provision, the President must notify in writing the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate and his intention to negotiate such an agreement and consult with such committees regarding the negotiation of the Agreement. The negotiations may proceed unless either of the committees disapproves the negotiations within 60 legislative days following notification.

U.S. BILATERAL TRADE WITH CANADA

[U.S. dollars in billions]

	U.S. imports	Percent change	U.S. exports	Percent change	U.S. balance
1982	46.5	1.3	33.7	−14.9	−12.8
1983	52.5	12.9	38.2	13.4	−14.3
1984	66.9	27.4	46.5	21.7	−20.4

United States-Canadian trade in softwood lumber

Industry situation.—In the last two decades, the U.S. lumber industry has undergone significant transformation. The dominant supplier position of the Pacific Northwest has been challenged by the U.S. Southeast and Canada. At the same time, newer technol-

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ogies and macroeconomic factors have put downward pressure on both prices and employment.

In this period the United States has become a significant consumer of Canadian softwood lumber. U.S. imports of Canadian lumber have doubled since 1970, from slightly under 6 billion board feet to over 13 billion board feet in 1984. Most of this growth occurred before 1978, when imports first neared the 12 billion board feet level before dropping to under 10 billion board feet during the 1980–82 recession. This trade is worth over $3.5 billion to Canadian suppliers and represents a major element in the economies of Canada's western provinces.

The U.S. market share of Canadian lumber has grown from around 18 percent in 1970 to almost 31 percent in 1984. As with the volume increase, most of this growth occurred before 1978, when Canadian softwood lumber captured almost 28 percent of the U.S. market. In contrast to import volume, the Canadian market share never dropped during the recent recession but has continued to grow very slowly in the last 7 years. From January to May of 1985, deliveries of Canadian lumber to the United States were running 13 percent ahead of last year's pace.

Canadian softwood lumber imports have had a significant impact on all regions of the United States. In the heavily forested States in the South, Canada's market share has grown to 49 percent in Georgia, 41.3 percent in North Carolina and 58.2 percent in Florida. Canadian producers currently take 63.2 percent of the Northeastern market. It is Western producers, however, that appear to be most heavily impacted. Their share of the U.S. market has declined from 55 percent in 1975 to 40 percent in the first 5 months of 1985, at the same time that Canada expanded its market share by 14 percent.[1]

The problems for U.S. industry caused by increased imports of Canadian lumber have been compounded by other factors. Chief among these was the sharp downturn in lumber demand during the 1980–82 recession. Housing starts fell by over 50 percent from 1978 to 1980. While housing starts and lumber demand has since returned to near previous levels, lumber companies have not fully recovered. The effects of the decline on employment have been amplified by the introduction of new, highly automated mill technologies.

The strong increase in demand during the last 5 years of the 1970's and high inflationary expectations also led to a speculative surge in prices. Lumber companies in the U.S. Northwest, the area of the country most dependent on purchased timber, entered into contracts to buy Federal timber at record high prices. When lumber prices fell in the recession, these companies found themselves with costs of production far higher than prices for finished products. While recent legislation allowed some companies to "buy out" of the onerous contracts, the penalties caused by the contracts continue to affect the health of the industry.

The combination of all of these factors has had a serious adverse affect on the U.S. lumber industry. In the last 6 years, over 250

[1] Market share figures were provided by the National Forest Products Association.

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U.S. lumber mills have been forced to close. Nearly 30,000 workers employed directly by lumber firms have lost their jobs. Thousands of workers in related industries have been forced out of work. In 1984 alone, the six largest U.S. lumber producers wrote off over $550 million in softwood lumber assets, despite record levels of lumber consumption of about 43 billion board feet (BBF).

Although lumber demand has recovered sharply from the recession lows, prices have not. Real prices remain at or near the levels that prevailed ten years ago, before they reached the peaks of the late 1970's. While lower inflationary expectations are responsible for some of the downward pressure on prices, the delegation believes that the strength of the dollar, as reflected in import prices has also had a significant effect. During the last 10 years, the value of the Canadian dollar in U.S. dollars has fallen from its historic level of near or just above parity to only slightly above U.S. $0.70. Because almost all Canadian lumber mill costs are in Canadian dollars, the change in currency value has helped Canadian suppliers to lower their export prices without decreasing their returns in Canadian dollars.

U.S. Government actions.—In December, 1981, the U.S. International Trade Commission (ITC) instituted an investigation (No. 332-134) of "Conditions Relating to the Importation of Softwood Lumber into the United States", under section 332 of the Tariff Act of 1930. The ITC report was issued in April 1982. Its major findings were that the large supply of economically harvestable timber in Canada, relative to the smaller U.S. resource supply, led to a strong export bias by the Canadian industry and that this and lower raw material prices have led to an increasing Canadian market share in the United States.

The ITC found that lower Canadian raw material costs were due in part to differences in the systems used to set "stumpage," or cutting rights, prices for government timber. Appraisal pricing systems used in the United States and Canada are similar, but Canadian lumber is sold at the appraisal prices while U.S. government owned lumber is sold at prices determined in intensely competitive bidding where demand exceeds supply. The ITC also highlighted the fact that exchange rate movements have increased the relative competitiveness of imports of Canadian softwood lumber.

The stumpage issue was again considered in 1982, when a countervailing duty complaint against imports of Canadian softwood lumber was filed by a group of U.S. lumber companies, largely located in the Pacific Northwest. The case was dismissed when the Department of Commerce ruled that the stumpage system used by British Columbia and other Canadian provinces did not constitute a countervailable subsidy, largely because the stumpage prices established in Canada were "generally available" to diverse Canadian industries.

However, several members of the delegation believe that the Department of Commerce took an unduly narrow approach in that case and in several others dealing with natural resources and believe that resource pricing practices of the type described in H.R. 2451 should be prohibited subsidies even if nominally available to all industrial users, at least in cases where the resource in question comprises a significant portion of the cost of the final product.

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Moreover, a recent decision by the Court of International Trade, *Cabot Corp.* v. *United States*, No. 83-7-01044, Slip Op. No. 85-102 (C.I.T. October 4, 1985), indicates that the Commerce Department has interpreted improperly the concept of general availability stressing that "the appropriate standard focuses on the de facto case-by-case effect of benefits provided to recipients rather than on the nominal availability of benefits."

Earlier this year, the administration requested that the ITC update its 1982 section 332 report on the conditions affecting the lumber industry. This report was issued on October 9, 1985 and contains the most current information available on the domestic softwood lumber industry and the impact of Canadian imports.

In response to industry concerns, the administration has also requested consultations with the Canadian Government in order to obtain a better understanding of the market situation in North America and the factors affecting trade in lumber and other wood products. Two meetings have been held to date, the most recent on April 24.

At the request of the Industry Sector Advisory Group for Lumber and Lumber Products, the U.S. delegation led by Ambassador Michael Smith, Deputy U.S. Trade Representative, focused on Canadian barriers to the import of U.S. products. Ambassador Smith noted the significantly higher levels of tariffs in Canada for mill products and the existence of Canadian standards for plywood which effectively deny U.S. companies access to the Canadian market. In light of the severe problems being experienced by U.S. lumber producers, as well as the importance of the U.S. market to the Canadian industry, the Government of Canada agreed to review the tariff and standards problems. More recently, U.S. Trade Representative Clayton Yeutter publically stated in Canada that resolution of these two issues would be an essential element of any bilateral trade agreement that the Canadian Government might propose in the future. The delegation strongly concurs in this view.

Log export policies.—Both Canada and the United States ban the export (with minor exceptions) of logs cut from government-owned land. The United States also has a ban on the export of any red cedar logs. The difference in effect between U.S. and Canadian policy is that over 90 percent of Canadian west coast wood production is from Federal and provincially owned lands, while the corresponding figure for the United States is below 20 percent. These bans were put in place to preserve domestic value added and to offset the Japanese policy of buying logs but not lumber.

There has been a proposal to remove the prohibitions insofar as they affect bilateral trade. It has been suggested that this would provide a reasonable test of the Canadian contention that their stumpage fee practices do not result in unfairly low-priced raw material for the Canadian lumber industry, since Canadian log exports could put lumber companies on both sides of the border on an equal footing. However, the delegation believes that it is unlikely that much trade would develop should the prohibitions be removed, since it is usually economical only to use the nearest sawmill.

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Highlights of Meetings With Canadian Officials

The delegation had two substantive meetings during its one-day stop in Vancouver—a breakfast meeting hosted by William Bennett, the Premier of the Province of British Columbia, and a 3-hour briefing on the Canadian softwood lumber industry hosted by Canadian Trade Minister James Kelleher. The meetings proved to be very useful in increasing the delegation's understanding of the Canadian softwood lumber industry and how its stumpage system operates. The meetings also served to acquaint the Canadian Government and industry officials with the purpose and content of H.R. 2451 as well as the economic and political environment in which it it being considered in the United States.

The breakfast meeting was attended by a number of high-ranking federal and provincial government officials, including Premier Bennett, Trade Minister Kelleher, the Federal Minister of Forrestry and Minister of Fisheries and the provincial Ministers of Forestry from the Provinces of British Columbia, Alberta and Saskatchewan. Company and union representatives of the Canadian softwood lumber industry also attended. After opening remarks by Premier Bennett, Minister Kelleher, and Chairman Gibbons stressing the positive aspects of our bilateral relationship and indicating that the purpose of this visit was to learn more about the issues rather than to negotiate a solution, a lively and sometimes heated discussion ensued.

Minister Kelleher said he is hopeful that serious negotiations on a bilateral free trade agreement between the United States and Canada would begin in the fall and that he and the U.S. negotiators feel that subsidies would be an appropriate issue to be addressed, hopefully resulting in a common definition and list of actionable subsidies practices as well as a common definition of injury.

Both he and Premier Bennett objected strongly to the U.S. unilateral approach to solving this problem and urged the delegation to work with Canada to resolve our problems on a bilateral basis. According to Premier Bennett, the Gibbons bill would not result in a "leveling of the playing field", but rather would result in a "leveling of one of the players".

Chairman Gibbons described the history of the resource input subsidy bill and indicated that it was a generic bill and not aimed specifically at Canada or any other country. He explained that its purpose is to discourage the growing use of two-tiered pricing arrangements and other below market pricing structures by resource-rich countries. These policies have the unwanted effect of subsidizing their domestic producers by affording them preferential or below market rates for resource products and, in so doing, skewing normal comparative advantage. Often, such below market prices cause an increase in domestic production which is uncontrolled by market forces. Exports naturally escalate. Manufacturers in other countries, such as the United States, which might be able to compete fairly in the market are unable to compete against below market resources provided to firms in an exporting country.

The Chairman argued that policies of the type addressed by the resource input rule are subsidies within the meaning and spirit of

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the General Agreement on Tariffs and Trade (GATT) and the Agreement on Subsidies and Countervailing Measures. While the GATT recognizes a country's right to control over its natural resources, two-tiered pricing schemes and below market sales of resources distort prices to such a degree that the policies go beyond internal control of resources but rather provide a substantial subsidy to domestic production. To the extent that these policies prove injurious to U.S. industry, the United States has the right to act against them.

The Chairman acknowledged, however, that certain elements of the bill could be improved and he offered to work with Canada to improve the bill and make it fairer in its application to Canadian softwood lumber. In closing, he reminded the group that the delegation was not in Vancouver to "try a case" or make a determination as to whether Canadian stumpage practices constitute a subsidy under this bill. Rather, it is the role of the Congress to establish principles of law to be interpreted by the Administrative agencies and the courts and it is his intent to establish a fair and equitable standard which is consistent with the GATT for determining whether governmental practices with regard to natural resources constitute a subsidy.

Other members of the delegation described the intense political pressure in Washington relating to this and other trade issues in light of the huge and growing overall trade deficit and the fact that virtually every region in the United States, including the South, is experiencing significant market penetration from Canadian lumber which is generally underselling U.S. lumber. Many expressed a strong desire to learn more about the Canadian stumpage system and one Member invited the Canadians to express the specific concerns they have with the Gibbons bill.

Premier Bennett pointed out that as a politican, he understands the political pressures in the United States. He indicated that he is under tremendous political pressure on this issue as well. The Canadian softwood lumber industry is suffering many of the same economic problems as the U.S. industry, with significant mill closings and employee layoffs. The problems that the U.S. industry is facing are not the result of Canadian stumpage practices according to Bennett, however, but are more related to the strong value of the U.S. dollar.

The meeting concluded with a plea from Canadian Ministry of Fisheries John Fraser to the U.S. delegation to consider the consequences that the Gibbons bill could have on the bilateral relationship. He pointed out that the Mulroney government has taken a very strong pro-American stance and taken positive steps, such as relaxing the requirements of the Foreign Investment Review Agency (FIRA), renamed Investment Canada, and the National Energy Program (NEP), to improve our bilateral relations. However, that position is somewhat tenuous politically in Canada and could be reversed if the anti-Canada rehetoric continues in the United States.

While the breakfast meeting was devoted primarily to a broad-based discussion of the economic and political implications of the Gibbons natural resources bill, the session hosted by Trade Minister Kelleher consisted of a detailed briefing by several industry and

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government representatives on various aspects of the Canadian softwood lumber industry. Presentations were made by a representative of the Council of Forest Industries (COFI) on an "Overview of Resource"; by a representative of the B.C. Ministry of Forests on "Stumpage" and how it operates in Canada; by several Canadian lumber company representatives on "Indicated Delivered Log Costs"; by Federal and B.C. Ministry of Foresty official on "Forest Management"; and finally a presentation was made by an industry representative on "Competitive Factors" affecting the Canadian lumber industry. Members of the delegation asked a number of difficult questions of the presenters and had an excellent exchange of views on these subjects.

During the presentation on "Overview of Resource" by Tony Shebbeare of COFI, it was pointed out that there are many differences in forest conditions between the United States and Canada. Whereas many U.S. forests, particularly in the South, are plantation forests consisting of regular rows of planted trees of uniform age on relatively flat terrain and in many instances not far from established roadways, most Canadian forests consist of mixed species, often on mountainous terrain miles from the nearest town, thus involving tougher logging conditions. The Canadian system of long-term leases is best suited for opening up its natural resources.

The U.S. delegation asked a number of questions about the Canadian lease system, and pointed out that if Canadian forests are compared with those in the Pacific Northwest, rather than those in the South, the alleged disparity in conditions are not as significant as alleged. Members of the delegation also pointed out that Canadian companies are reimbursed by the Government for many of their expenditures for road building and other infrastructure costs. The U.S. side also queried: If all of the Canadian costs are higher as alleged, how do they continue to undersell us in U.S. markets.

Hartley Lewis of the British Columbia Ministry of Forestry addressed the Canadian stumpage system. Stumpage means the price which is paid for standing timber. Stumpage systems across Canada and the United States differ in the kinds of costs they impose on producers and in their practical application. What the value of timber really boils down to is how much a given lumber manufacturer can afford to pay for it. Among the factors that affect the value of timber are the species, age, size and quality of the timber, degree of remoteness, accessibility to roads, harvesting costs, climate and topography. These factors result in different values for different trees and there is a wide disparity in stumpage rates even across the United States.

According to Mr. Lewis, the stumpage appraisal system in British Columbia is based on the same residual value system as that in the United States, both of which are aimed at determining the fair market value of the timber. Both determine the stumpage value by starting with an estimated end product value and deducting the cost of production and an estimated profit and risk allowance.

The U.S. delegation pointed out however, that there were some important differences in the two systems. First, the U.S. appraisal system only establishes a floor from which our bidding system usually results in a stumpage fee of several times the base amount,

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whereas the B.C.-established rate is exactly what the company has to pay.

Second, whereas in the United States the stumpage rates are for trees to be cut several years later, thereby requiring a good deal of speculation, Canada's rates are established on a 3-month moving average and adjusted on a monthly basis. Thus, although this allows the B.C. Government to share more (up to 80 percent) of the profits when the market is on the upswing, it also protects companies from taking losses in a down market because the stumpage price would be adjusted downward as the market price of lumber declines. On the other hand, under the U.S. system, while lumber companies may make substantial profits if the market price of lumber increases significantly between the time the stumpage rate is established and the trees are cut, they also must bear the brunt of significant losses when the market drops dramatically. According to many on the U.S. delegation, this is the key distinction between the two systems and it is here that the subsidy lies.

Finally, there was some dispute about the profit and risk allowance built into the Canadian stumpage rate. A member of the U.S. delegation alleged that the B.C. Government appraisal provides for a 12 percent profit and 18 percent risk factor for logging companies. However, the B.C. Government official insisted that the historical average for both factors combined was only 16–18 percent.

During the presentation on "Indicated Delivered Log Costs" by several representatives of Canadian lumber companies, it was argued that it is not legitimate to simply compare stumpage rates in two cross-border regions. They maintained that when all the costs and charges involved in harvesting the timber, processing it, and transporting it to market are taken into account, the delivered log costs are comparable for roughly equivalent stands of timber on both sides of the Canada-United States border, notwithstanding the admitted lower Canadian stumpage rates. Canadian lumber companies frequently have to pay more additional costs, such as for road building and reforestation, than U.S. companies, according to the Canadians.

A number of the U.S. delegation pointed out, however, that under Canadian law the companies are frequently reimbursed for such costs. In fact, in the case of one Canadian company (West Star Industries), it received more in government reimbursements than it paid in stumpage fees.

John Cuthbart, Chief Forester, B.C. Ministry of Forestry, Doug Ketcheson, Federal Assistant Deputy Ministry of Foresty and Bruce Dent of Pacific Forest Products made a brief presentation on "Forest Management". They maintained that Canada is practicing responsible forest management and has been stepping up its reforestation efforts dramatically. A member of the U.S. delegation pointed out a number of Canadian sources have disputed this fact.

Finally in a presentation on "Competitive Factors", Mr. Jack McMillan, Vice President of CANFOR, attempted to answer the question posed by the delegation as to how Canadian lumber can be sold in the United States at lower prices than U.S. companies notwithstanding the higher costs associated with logging in Canada. He maintained that there were three major factors which allowed Canadian products to be competitive in the U.S. construction

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lumber market—the high value of the U.S. dollar; recent productivity improvements in both industries but particularly in Canada; and customer preference.

The strength of the U.S. dollar is the most significant factor according to Mr. McMillan. Whereas the U.S. dollar was at par less than 10 years ago, it is currently worth about $1.35 Canadian. Because Canadian companies incur costs in Canadian dollars but sell their products in American dollars, the exchange rate helps to keep this price down in the U.S. market. This analysis does not take into account the disparate rate of inflation in the two countries, which has largely mitigated the effect of the currency disparity.

With regard to the second factor, Mr. McMillan maintained that although there have been productivity improvements in both industries over the past seven years, Canadian companies now maintain a significant productivity advantage over U.S. companies. This point was disputed by members of the delegation, who asked Mr. McMillan to provide documentary evidence of the alleged productivity advantage.

Finally, Mr. McMillan indicated that there is a strong consumer preference by carpenters framing houses in the United States for Canadian Spruce-Pine Fur (SPF) over Southern Yellow Pine because it is more stable and easier to pound a nail into. In many cases, customers are willing to and do pay more for Canadian SPF than for Southern Yellow Pine.

After more than 3 hours of lively discussion and debate, the meeting was adjourned with Chairman Gibbons thanking our hosts and requesting that the Canadian Government provide him with a critique of his bill making specific suggestions to address Canadian concerns with the bill as drafted. Trade Minister Kelleher assured Mr. Gibbons that they would do so.

Conclusions

The Canadian Government and industry officials did an excellent job of explaining their system and most of the delegation had the impression that the Canadians truly believe that their stumpage system does not constitute a subsidy. However, the issue is extemely complex and few members left Vancouver convinced that a subsidy does not exist. Further, nothing in their presentation convinced the delegation that it would be inappropriate to change existing law to clarify the definition of subsidies and to ensure that government distribution of resource products below fair market value in a manner which causes injury be disciplined.

All members of the delegation, however, recognize the importance of our bilateral relationship and were encouraged by the pledge between Chairman Gibbons and Trade Minister Kelleher to work together to improve the bill and make it fairer in its application to Canadian softwood lumber.

Unfortunately Mr. Kelleher's follow-up letter to Chairman Gibbons on September 16, 1985, did not offer any constructive amendments to improve the bill. Rather, it indicated that the difficulties they have with the bill cannot be met by amendments but only by dropping the bill. Chairman Gibbons response to Minister Kelleher

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on October 1, 1985 expressed regret that more constructive suggestions had not been offered to help fashion a fair and equitable standard. He pledged to continue working with Canada to modify the bill to make it fairer in its application to Canada and other trading partners while at the same time giving U.S. industries an opportunity to respond in a meaningful way to the damaging effect of foreign subsidy practices.

On October 2, 1985, Chairman Gibbons circulated a memorandum to the Members of the Committee on Ways and Means containing amendments which he intended to offer to the removal rights section of H.R. 2451, designed to provide a fairer standard for determining the fair market value of a removal right under the bill. The amendments, which originated in large part from concerns expressed by Canadian Government and industry officials in Vancouver, would make two fundamental changes in the bill.

First, the provision in proposed section 771B(b)(2) of the bill, which provided for the exclusion from "fair market value" of "the cost or value of any activity the recipient of a removal right must undertake to receive that right," has been deleted.

Second, the standard for determining the fair market value for removal rights has been changed from—

> "the price paid for a comparable removal right in a comparable region in the country (other than the country providing or selling the right) which has the largest number of arms-length sales of such rights",

to—

> "the price that, in the absence of government regulation or control, a willing buyer would pay a willing seller in an arms-length transaction for the removal right in the exporting country",

a standard which is virtually identical to the standard for determining the fair market value of imput products under the bill. Among the factors that the administering authority is directed to take into account in determining the fair market value of a removal right are—

> "(A) the price paid in the exporting country for a comparable removal right not subject to government regulation or control;
>
> "(B) the price paid in the exporting country for a comparable removal right sold or offered for sale through a process of competitive bidding; and
>
> "(C) the price paid for a comparable removal right in a comparable region of a country other than the exporting country."

Thus, as amended, the administering authority would be able to take into account a number of factors, including ancillary costs borne by Canadian companies in order to obtain removal rights, in calculating the fair market value of such removal rights, rather than simply comparing the stumpage price in Canada with that for comparable stumpage in the United States.

On October 24, 1985, the subcommittee by voice vote ordered the bill favorably reported with the amendments described above.

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Japan

Overview

Between August 4 and 8, 1985, the delegation visited Japan for meetings with local and national government officials and with United States and Japanese business representatives. The delegation visited the cities of Sendai and Tokyo.

Trade tensions between the United States and Japan have reached unprecedented levels. The purpose of the delegation's trip to Japan was to attempt to convey to Japanese business and government officials the crisis nature of those tensions and the need for Japan to announce immediate steps designed to reduce its global and bilateral trade surpluses by a substantial amount over the next five years. Chairman Gibbons suggested that Japan adopt an internal goal of reducing its surplus to no more than $15 billion during that period. Japan's trade surpluses have grown despite the substantial appreciation of yen against nearly all currencies. Japan's imports have not increased commensurately with yen strength and its exports have not suffered perceptably, as has been true in the case of U.S. trade due to the strong dollar. The delegation's subsequent travel to other Southeast Asian countries provided evidence of the difficulty which countries of that region have in exporting to Japan.

The major focus of the delegation's discussions with Japanese industry and government leaders was more on the need to reverse overall trends in Japan's trade performance and less on industry-specific concerns. While this report does not provide an assessment of bilateral trade problems on a sector-by-sector basis, the delegation notes the importance of the Action Program (summary in Appendix M), bilateral Market-Oriented Sector Specific (MOSS) talks in four sectors (telecommunications, forest products, medical equipment and pharmaceuticals, and electronics), and other measures taken or being contemplated by Japan to increase market access by U.S. and other foreign producers.

United States–Japanese Trade Relations

The nature of United States-Japanese trade relations in many ways is a repetitive one. Each year, the U.S. business community and the U.S. Congress register their concern and frustration over problems of market access and the growing bilateral trade deficit. Each year, the Japanese Government and business community respond with a variety of market liberalization packages, import promotion initiatives, buying missions to the United States, and other measures designed to increase imports and/or appease U.S. concerns. This year has been little different. Whether events in either country will serve to place the United States-Japanese trade rela-

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tionship on a different footing in the future remains to be seen. What is clear, however, is that pressures in the United States to protect U.S. markets or at the very least to significantly alter current methods of handling U.S. trade problems are more intense than at any time in the postwar period. Equally clearly, Prime Minister Nakasone and others in his Cabinet and the Japanese business community appear to recognize the need for Japan to take a leadership position in the trade area, but their efforts to deregulate and liberalize Japan's markets cannot succeed without general consensus within Japan that such steps need to be taken. At this writing, it does not appear that the requisite consensus exists. In the meantime, the imbalances grow larger.

Looking only at the export side, U.S. trade performance vis-a-vis Japan does not appear particularly problematic. In 1984, U.S. exports to Japan totalled $23.6 billion, up nearly 8 percent since 1983 and 13 percent since 1980. Japan thus ranks as our second largest export market—behind Canada—and as our single largest export market for agricultural goods; in 1984, Japan bought $6.8 billion of U.S. farm products, a 10 percent increase over 1983 levels. These increases in U.S. exports stand in contrast to the sharp decline in U.S. exports to Latin America in recent years, due largely to those countries' financial difficulties, and the decline in exports to Europe in the face of slow growth in European economies and the high value of the dollar.

Analysis of the major U.S. exports to Japan on a sector-by-sector basis reveals a more mixed performance however. (See table 1.) Between 1983 and 1984, U.S. exports of corn rose 13 percent (22 percent since 1980); chemicals rose 19 percent (57 percent since 1980); and office machinery and computers rose 23 percent (71 percent since 1980). However, between 1983 and 1984, exports of soybeans fell 3 percent (with a 6 percent increase since 1980); aircraft and parts fell 25 percent (1 percent since 1980); coal fell 16 percent (51 percent since 1980); and logs and lumber fell 7 percent (82 percent since 1980).

TABLE 1.—COMPOSITION OF U.S. EXPORTS TO JAPAN BY MAJOR ITEM, 1980–84

U.S. exports (f.o.b.)	1980	1981	1982	1983	1984
Billion dollars:					
Total	20.8	21.8	21.1	21.9	23.6
Agricultural	6.1	6.6	5.5	6.2	6.8
Nonagricultural	14.5	15.0	15.1	15.3	16.3
Manufactured	8.6	9.5	9.4	10.1	11.1
Million dollars:					
Corn	1,633	1,792	1,290	1,764	1,999
Chemicals	987	1,215	1,302	1,307	1,554
Soybeans	1,106	1,139	971	1,210	1,173
Office machinery and computers	652	759	838	905	1,115
Aircraft and parts	1,086	1,310	906	1,345	1,073
Coal	1,311	1,472	1,525	1,002	865
Logs and lumber	1,533	1,021	1,045	990	841

Source: U.S. Commerce Department.

Gains in U.S. exports to Japan have been more than offset by growth in U.S. imports from Japan. Imports from Japan in 1984 to-

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talled $60.4 billion (cif), an increase of 40 percent since 1983 and 83 percent since 1980. (See Table 2).

TABLE 2.—COMPOSITION OF U.S. IMPORTS FROM JAPAN BY MAJOR ITEM, 1980–84

U.S. imports (c.i.f.)	1980	1981	1982	1983	1984
Billion dollars:					
Total	33.0	39.9	39.9	43.6	60.4
Agricultural	.1	.1	.1	.2	.2
Nonagricultural	32.8	39.8	39.8	43.4	60.1
Manufactured	32.1	39.2	39.1	42.7	59.3
Million dollars:					
Passenger cars (new)	9,030	10,045	9,834	10,963	13,038
Office machinery and ADP machines	1,218	1,717	2,176	3,389	5,454
Electrical machinery and parts	1,746	2,051	2,276	3,026	5,079
Consumer electronics	1,579	2,522	2,452	3,088	4,840
Steel mill products	3,256	4,143	3,855	2,117	3,453
Trucks and other motor vehicles	869	2,383	2,435	2,793	3,206
Motor vehicle parts	1,713	531	616	931	1,622
Metal manufactures	1,126	1,227	1,447	1,179	1,457

Source: U.S. Commerce Department.

As the above data show, all of Japan's major exports to the United States have experienced increases in recent years. Between 1983 and 1984, Japan's single largest industrial export to the United States, automobiles, was under volume restraint yet nonetheless registered a 19 percent increase in value (44 percent since 1980); exports of office machinery and automatic data processing equipment rose 61 percent (348 percent since 1980); electrical machinery and parts rose 68 percent (190 percent since 1980); consumer electronics rose 57 percent (206 percent since 1980); steel mill products rose 63 percent (but only 6 percent since 1980); trucks and other motor vehicles rose 14 percent (and a substantial 269 percent since 1980, despite a 25 percent ad valorem tariff—undoubtedly as a response to the export restraints on automobiles); motor vehicle parts rose 74 percent (but fell 6 percent since 1980); and metal manufactures rose 24 percent (29 percent since 1980).

Table 3 summarizes U.S. trade balances on a global basis and with Japan.

TABLE 3.—U.S. MERCHANDISE TRADE BALANCE

[In billions of dollars, fob/cif]

	1980	1981	1982	1983	1984
Global	−36.4	−39.7	−42.7	−69.4	[1] −127.6
With Japan	−12.1	−18.1	−19.0	−21.8	−36.8

[1] The Commerce Department in August 1985 revised the 1984 merchandise trade deficit, which previously was reported as $123.3 billion.

While bilateral trade figures tend to be the central focus of concerns expressed in the United States about the direction of the U.S.-Japanese trade relationship, the delegation's subsequent travel to other countries of Asia made it clear that the global picture cannot be ignored. Many countries in that region have expressed concern over the difficulties their exporters face in attempts to penetrate Japanese markets. In some cases, those coun-

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tries' trade figures speak for themselves; one example is sufficient to illustrate the point.

In 1984, the United States absorbed more than 40 percent of Thailand's textile exports, and that share had increased since 1980. However, Japan absorbed less than 2 percent of Thailand's textile exports in 1984, and Japan's share had declined since 1980—that being true despite Japan's proximity, its relatively strong economic growth (5.8 percent real GNP growth in fiscal year 1984), and its large market size. Nor is Thailand apparently alone in its difficulties. Upon its return to Washington, the delegation learned—and the reports were confirmed by the Japanese Government—that the Japanese Government in September had asked the People's Republic of China, Pakistan, and South Korea to reduce their exports of cotton and cotton products to Japan. While exports from those countries had increased in 1984—in some cases substantially—average annual increases since 1980 in most cases were not nearly as great.

One of the growing sources of frustration for many in the United States is the fact that the United States seems to be playing a lonely role as engine of economic growth and stability for much of the rest of the world. The United States absorbs about 58 percent of developing countries' manufactured goods, the European Communities absorb about 23 percent, and Japan absorbs only about 8 percent. In this regard, Japan (and the European Communities) has a potentially important role to play. As one member noted during the trip, the U.S. engine is beginning to run out of steam.

One of the issues raised by the delegation during a number of its meetings with Japanese business and government leaders was the fact that the substantial yen appreciation against most currencies other than the dollar in recent years has not generally translated into substantial increases in imports from non-dollar countries. Table 4 provides in both yen and dollar terms a breakout of Japan's imports from selected countries and the yen's appreciation against those countries' currencies.[1] Table 5 provides a breakout of Japan's trade balance with selected countries and regions.

TABLE 4.—YEN APPRECIATION AND JAPAN'S IMPORTS

[On c.i.f. basis]

Imports from—	1980	1981	1982	1983	1984	Percent	
						Change in imports (1980–84)	Yen appreciation (1980–84)
United States:							
Billion dollars	24.4	25.3	24.2	24.6	26.9	+10	[1] −5
Billion yen	5,558	5,552	5,990	5,855	6,364	+15	
France:							
Billion dollars	1.3	1.2	1.2	1.3	1.2	−1	+131
Billion yen	294	257	300	309	293	0	
United Kingdom:							
Billion dollars	2.0	2.7	1.9	1.9	2.3	+15	+100
Billion yen	440	594	458	461	536	+22	

[1] The data are provided in both yen and dollar terms because the argument is sometimes made that presentation of Japan's trade data in dollar terms may distort actual developments in Japan's trade performance.

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TABLE 4.—YEN APPRECIATION AND JAPAN'S IMPORTS—Continued

[On c.i.f. basis]

Imports from—	1980	1981	1982	1983	1984	Percent: Change in imports (1980–84)	Percent: Yen appreciation (1980–84)
Germany:							
Billion dollars	2.5	2.4	2.4	2.4	2.7	+8	+74
Billion yen	570	532	583	573	635	+11	.....
South Korea:							
Billion dollars	3.0	3.4	3.3	3.4	4.2	+40	+65
Billion yen	681	748	808	800	1,001	+45	.....
Singapore:							
Billion dollars	1.5	1.9	1.8	1.5	1.8	+20	+3.5
Billion yen	345	430	453	349	419	+21	.....
Brazil:							
Billion dollars	1.5	1.6	1.6	1.7	2.0	+33	+1169
Billion yen	353	348	398	397	472	+34	.....
Argentina:							
Billion dollars	.3	.3	.4	.54	.49	+63	+968
Billion yen	66	62	103	129	116	+76	.....

[1] Depreciation.

Source: Summary Report, Trade of Japan, Japan Tariff Association and International Financial Statistics, IMF.

TABLE 5.—JAPAN'S MERCHANDISE TRADE BALANCE WITH MAJOR COUNTRIES AND REGIONS

[f.a.b./c.i.f.]

	1980	1981	1982	1983	1984
United States:					
Million dollars	6,959	13,312	12,151	18,182	33,975
Billion yen	1,560	2,967	3,025	4,324	7,857
European Communities:					
Million dollars	8,808	10,342	9,504	10,403	10,071
Billion yen	1,986	2,267	2,359	2,469	2,387
France:					
Million dollars	725	1,051	1,103	708	699
Billion yen	163	228	275	168	165
United Kingdom:					
Million dollars	1,828	2,075	2,939	3,043	2,408
Billion yen	418	460	732	723	571
Germany:					
Million dollars	3,255	3,539	2,663	3,463	3,938
Billion yen	731	777	658	823	935
Southeast Asia:					
Million dollars	−842	2,496	1,888	6,587	4,912
Billion yen	−234	560	486	1,564	1,167
South Korea:					
Million dollars	2,372	2,269	1,627	2,639	3,014
Billion yen	544	498	406	627	710
Singapore:					
Million dollars	2,404	2,524	2,547	2,981	2,835
Billion yen	540	554	632	708	672
Latin America:					
Million dollars	3,217	3,847	2,818	−71	1,319
Billion yen	716	847	691	−17	315
Brazil:					
Million dollars	−211	−446	−560	−931	−1,351
Billion yen	−46	−100	−141	−222	−320

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TABLE 5.—JAPAN'S MERCHANDISE TRADE BALANCE WITH MAJOR COUNTRIES AND REGIONS—Continued

[f.o.b./c.i.f.]

	1980	1981	1982	1983	1984
Argentina:					
Million dollars	711	504	−146	−232	−97
Billion yen	157	107	−37	−55	−23

Source: Summary Report, Trade of Japan, Japan Tariff Association

While the trade patterns evidenced in tables 4 and 5 are a bit mixed, the data show that despite relatively robust economic growth in Japan (3.0 percent real GNP growth in 1983; 5.8 percent in 1984) and yen appreciation, import growth from selected major trading partners averaged anywhere between zero (France) and 15 percent (Argentina) per year during the five years from 1980 through 1984. Moreover, Japan's export growth to most of those countries has outstripped growth in imports, so that Japan's trade surpluses showed a fairly steady upward trend through 1983. Only in 1984 did Japan's trade surpluses with countries other than the United States begin to moderate or decline. According to the OECD, net exports over the past five years have contributed about 10 percentage points to the 23 percent increase in Japan's real GNP during the same period.

Japan's trade performance with Latin America has proved an exception to the trend of growing surpluses. Japan moved from a fairly sustantial surplus in 1980–81 to a slight deficit in 1983, undoubtedly as a result of Latin America's debt problem. Although the overal surplus with Latin America reemerged in 1984, Japan continued to run a trade deficit with some of the larger countries, including Brazil and Argentina.[2]

It is not the object of this report to provide a full account of Japan's bilateral trade performance with countries other than the United States. However, the trends outlined above, when added to Japan's bilateral trade trends with the United States, help explain one of the reasons for growing congressional frustration over trade with Japan. Members of the delegation recognize that the United States needs to make substantial changes in some of its own policies—most importantly U.S. fiscal policy—in order to help correct the deterioration of U.S. trade performance. But the frustration over Japan's trade policies stems not only from industry-specific complaints which inevitably will arise between trading nations, but also from the belief that Japan, as the second largest free world economy, could and should do more to absorb the severe stresses in the world trade and financial system. The U.S. trade deficit has reached politically unsustainable levels. As the United States seeks to make adjustments to its domestic policies to reverse the growing U.S. trade deficit, it is essential that Japan (and countries in Europe) make adjustments to its policies which will enable it to

[2]Mexico was excluded from this analysis because oil and oil products are such an important element in its trade with Japan. This is not to say that Japan's nearly complete dependence on imported oil is not an important factor in its trade performance; clearly it is. However, Japan's demand for oil would not be significantly affected by exchange rate changes, which is the major focus of this analysis.

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play a more important role in aiding the growth of other trading nations.[3]

Highlights of Meetings With Japanese Officials

While in the city of Sendai and Miyagi Prefecture, a visit hosted in part by one of Sendai's Liberal Democratic Party representatives in the Diet, Kazuo Aichi, the delegation met with Miyagi Prefecture Governor Soichiro Yamamoto, Sendai Mayor Toru Ishii, and toured two factories: Tohoku Alps Electric Company, a manufacturer of electrical switches and other devices; and Tohoku Atsugi Company, a manufacturer of synthetic apparel products.

While in Tokyo, the delegation met with Prime Minister Yasuhiro Nakasone; Foreign Minister Shintaro Abe; Liberal Democratic Party (LDP) External Economic Affairs Coordination Committee Chairman Masumu Esaki and other members of the Diet; the Board of Governors and Committee Chairmen of the American Chamber of Commerce in Japan; Ambassador Mike Mansfield and senior Embassy officials; and senior Japanese business leaders at Keidanren (a leading senior Japanese business organization).

MEETINGS IN MIYAGI PREFECTURE

The purpose of the trip to Miyagi Prefecture was to meet with officials at the local and regional level; gain a better appreciation of Japanese lifestyles outside Tokyo; and visit Japanese production facilities of two products currently subject to intense debate domestically—textile products and electronic products.

The central focus of the meetings with Miyagi Prefecture Governor Soichiro Yamamoto and Sendai Mayor Toru Ishii was that local and regional officials should exercise their influence with national leaders and with local and regional organizations and businesses to improve the climate within Japan for more open international trade. This message complemented statements by the mayor and governor that a growing number of U.S. and other foreign firms are investing and doing business within Miyagi Prefecture. During the meetings, Chairman Gibbons indicated that he would suggest to the Prime Minister that Japan move to reduce its trade surplus from an expected level of $50 billion in 1985 to $15 billion within 5 years. Mr. Pickle expressed concern over Japanese barriers to U.S. exports of semiconductors, noting that the same U.S. firm which had recently announced construction of a plant in Miyagi Prefecture had laid off 1,000 workers in his district. Mr. Thomas encouraged the mayor and governor to do what they could to facilitate imports of U.S. goods into the region, including pistachio nuts and other products from California.

The delegation also visited two plants located in Miyagi Prefecture. The Tohoku Atsugi Company manufactures synthetic apparel products for consumption in the Japanese market. None of its prod-

[3] For additional analysis on recent Japanese trade patterns and import penetration ratios, two recent studies provide excellent background: "Changes in Japan's Trade Since the Tokyo Round," staff report of the International Trade Commission, Dec. 11, 1985; and "Japanese Trade Policies Towards Developing Countries," by Bela Balassa for the Second Conference on United States-Asia Economic Relations, Committee on Asian Economic Studies, in cooperation with the Asia Society in New York, September 1985.

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ucts are exported. The discussion with the plant's management focused on wage rates (about $21,000 per year for male employees and $10,000 per year for female employees), Japanese Government policies toward the textile and apparel industry, and production methods employed in the plant. Members learned that about 90 percent of the company's machinery is made in Japan and about 10 percent is imported, primarily from West Germany. Delegation members familiar with production methods used in the United States for similar products felt that U.S. production methods and use of modern technology compared favorably with the methods used in the Japanese plant.

The Alps Electric Company produces a wide array of electronic components, including switches and other circuit components, television tuners, satellite receivers, printers, video cassette recorders, magnetic recording devices, and complete systems such as desk-top computers and home audio systems. The delegation visited a plant which is part of the subsidiary Tohoku Alps Company and produces electronic switches and similar devices for use in televisions, stereos, remote control devices and other products. It produces an impressive 40 percent of total world consumption of such switches. Overall, overseas sales account for 42 percent of Alps Electric Company business, and the company is aiming at increasing that share to 50 percent. North America accounts for more than half of the company's overseas sales. Although overseas sales are mostly in the form of exports, the Alps Electric Company has established production facilities in Korea, Taiwan, Brazil, and, most recently, an experimental production line in California and a plant in the the United Kingdom. A second U.S.-based facility is being considered.

Liberal Democratic Party (LDP) Diet member Kazuo Aichi, one of three representatives from Sendai, accompanied the delegation during its meetings.

MEETINGS IN TOKYO

Prime Minister Yasuhiro Nakasone

The delegation met with Prime Minister Nakasone for approximately one and a half hours, discussing at length the serious nature of bilateral tensions in the trade area.

Prime Minister Nakasone opened the meeting by noting that in his 38 years in the Diet, he had never devoted so much time to one issue; he said he was doing his utmost to overcome current trade difficulties with the United States. He pointed to the July 1985 Action Program and the ongoing Market-Oriented Sector Specific (MOSS) talks as elements in his effort to liberalize the Japanese market and expressed his hope that the Action Program could be implemented in less than the 3 year period originally envisaged. The Prime Minister said he was aware that not everyone in Congress is satisfied with the actions taken so far by Japan and that frustration is building in Congress. However, he added, there is no more important relationship than that between the United States and Japan—not just in trade, but in political and security matters as well. It is crucial to maintain the strength of that relationship. He stressed that problems could be worked out through joint efforts by both sides.

Chairman Gibbons responded by explaining the constitutional preeminence of the Congress in international trade matters; any authority which the executive branch has in this area is because Congress delegated its Constitutionally-granted powers. The main mission of the delegation is to say how very serious the trade situation is in the Congress; some trade legislation probably will be approved by Congress this fall, including a textile quota bill. Other measures, such as a targetted import surcharge bill, also had to be taken seriously. Chairman Gibbons and other delegation members applauded Prime Minister Nakasone's leadership in the trade area but noted with regret that the actions to date—focusing heavily as they have on promises of future action—were unlikely to derail pressure in the United States to take more immediate steps to deal with: (1) the large trade imbalance with Japan and (2) the continuing allegations by U.S. and other foreign producers that Japan's markets are not fully open to imports, despite past market opening measures. Chairman Gibbons said the United States-Japan relationship is a special one; we want to protect and promote that friendship. He stressed that he would far prefer to see Japan take steps to expand domestic consumption and raise Japanese citizens' standard of living than to see the United States take trade restrictive actions. Based on the delegation's meetings with Foreign Minister Abe and a number of Liberal Democratic Party (LDP) Diet members, it seems that the Prime Minister has support within some circles which he can draw on to achieve his goals. However, support within the Japanese business community for market liberalization seems mixed.

Rather than reply immediately to Chairman Gibbons' comments, Prime Minister Nakasone asked for the delegation's views on what steps Japan could take, adding that he would try to do what he could.

Chairman Gibbons noted his reluctance to make some of the suggestions he had in mind, because they touched on Japan's domestic policy management. However, he suggested that an appropriate way to deal with longer term trade pressures would be for Japan to take steps to increase domestic consumption, both to take pressure off exports and to increase the living standard of Japanese citizens. However, because such steps would be slow in having an impact, the time has come to set some measurable goals for reducing the trade imbalance—specifically, to no more than $15 billion within five years. While many in Japan would say that the strength of the dollar is largely to blame, it is difficult to understand why imports into Japan from other countries have not increased substantially even though the yen has appreciated greatly against other currencies. Whatever the causes, the trade deficit has become an overwhelming political problem, and the United States can no longer continue absorbing it.

Mr. Frenzel noted that the chairman's comments understate the problem. Free traders in Washington are almost entirely without support for their position. At the risk of seeming repetitious of statements he had made to Japanese officials in the past, Mr. Frenzel stressed that if Japan wants to sell in foreign markets, Japan must do more to buy in foreign markets. While Japan is not the only country with which the United States has a trade deficit, the

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trade deficit with Japan is large and persistent, and the United States needs Japan's help in reducing it. Mr. Frenzel reiterated the Chairman assessment that Foreign Minister Abe and Diet member Ezaki recognized the need to deal with this problem; the same could not be said about Keidanren, at least judging by the delegation's meeting with that organization. Mr. Frenzel expressed appreciation for the Prime Minister's efforts to increase imports and to be responsive to President Reagan. He also noted the delegation's interest in the "bridge program" which apparently was being considered to increase imports in the short term. He concluded by saying it is essential that we get over the difficult hurdles facing us, most immediately in the next three months and then the next year; only then can we look at the future and plan for the long run.

Mr. Pease continued the discussion by thanking the Prime Minister for his efforts at market liberalization. He added that the tone of the group was not one of anger, but one of desperation and frustration over the tidal wave of protectionism which was about to overwhelm Congress. One of the major factors driving this protectionist sentiment is the monthly announcement of record bilateral trade deficits. These figures render the problem as much a political problem as an economic one. Mr. Pease noted that the action program will require 3 years to be fully implemented, and even an emergency import program would take time to construct and implement. He asked whether Prime Minister Nakasone would consider imposing an export surcharge or voluntary export restraints, in order to reduce pressure on the export side until Japan's imports could be expanded.

Prime Minister Nakasone responded to each speaker in turn. To Chairman Gibbon's suggestion that Japan set a goal of reducing its trade surplus to $15 billion in 5 years, the Prime Minister replied that it may be a goal worthy of consideration—particularly the idea that the government establish a set of internal goals to work toward. Prime Minister Nakasone also noted ongoing Japanese Government reviews of proposals for tax reform and domestic demand stimulus.

In reply to Mr. Frenzel's statement that Keidanren had not been very receptive or understanding of the delegation's message, Prime Minister Nakasone expressed surprise; he had understood that Keidanren was taking the situation very seriously, since many of its members had just returned from the Japan-United States Business Conference in Minneapolis. The Prime Minister added that the group's demeanor during the meeting with the Gibbons delegation may have been partially in response to the rather stormy session in Minneapolis. To Mr. Frenzel's suggestion that Japan address the trade problem in a 3-month to 1-year time frame, Prime Minister Nakasone replied that while three months was probably too short a time in which to deal with the problem, 1 year might be possible.

Turning to Mr. Pease, the Prime Minister indicated that he had not proposed an export surcharge but he had expressed the view that Japan must export in an orderly manner to certain sensitive areas of the world. He feared that if Japan imposed an export surcharge, the United States might counter with an import surcharge. He said he also feared that imposition of export restraints would be

used within Japan as a reason to avoid true market opening, a goal which Japan must pursue vigorously.

The Prime Minister then enumerated the various steps taken by the Japanese Government to open Japanese markets: financial market liberalization and internationalization of the yen; denationalization of Nippon Telephone and Telegraph (NTT); the intended purchase by two Japanese firms of two U.S. satellites; the decision in the medical/pharmaceutical sectoral negotiations to accept test data from the United States; a revised standards and certification process for automobiles, akin to self-certification; encouragement by the Ministry of International Trade and Industry (MITI) for Japanese firms to increase their purchase of U.S. products; import fairs in supermarkets and department stores; and, most recently, the comprehensive Action Program. Prime Minister Nakasone reiterated his support for full implementation of the Action Program, adding that it could represent his last opportunity to open Japan's markets.

Chairman Gibbons expressed his appreciation for the generous amount of time the Prime Minister had devoted to the meeting and for his efforts to open Japan's markets. He once again emphasized the seriousness of the situation, adding that the political will to resist protectionism in the United States was at its lowest level in the 23 years that he had served in Congress. Although it is unfair to blame Japan for the entire U.S. trade deficit, the greatest pressure is directed at Japan. He said that many people are depending on the Prime Minister for leadership, bold action, and results.

Prime Minister Nakasone concluded his remarks by thanking the delegation for its views and by making one request—that they please refrain from making statements that it is too late for Japan to act to prevent protectionist measures from being passed in the United States. Such statements, he said, undermine his efforts to open Japan's market through the Action Program and other means.

Meeting with Foreign Minister Shintaro Abe

The delegation's meeting with Foreign Minister Shintaro Abe, like the meeting with Prime Minister Nakasone, lasted far longer than scheduled—about one and a half hours. The thrust of the delegation's comments was similar to comments made during their meeting with Prime Minister Nakasone—generally, an expression of serious concern about the nature and direction of United States-Japanese trade relations.

Minister Abe commented that current tensions in United States-Japanese trade relations are the worst he has seen in his 25 years service in the Diet, including time spent as Minister of International Trade and Industry (MITI) and as Foreign Minister. Hopefully, we can overcome our problems and build a more stable relationship.

Mr. Gibbons thanked Minister Abe for meeting with the delegation and turned to Congressman Pease to head the discussion. Mr. Pease outlined recent developments in United States-Japanese trade relations in three areas: (1) official negotiations, in which much time and effort has been expended by both governments, (2) trade statistics, which reveal a substantial increase in the bilateral

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trade imbalance in the two years to 1984; (3) as an offshoot of the trade statistics, a weakening commitment to free trade among the U.S. business community, the American people, and the U.S. Congress. Mr. Pease noted that the textile bill had gained 291 cosponsors in a relatively short period of time. More significant to Japanese interests is the bill recently introduced by the Chairman of the Ways and Means Committee, Representative Dan Rostenkowski. Two points are worth noting about that bill. First, the bill is results-oriented; and second, its cosponsors include Chairman Rostenkowski, Mr. Richard Gephardt, Chairman of the House Democratic Caucus, and Majority Leader Jim Wright. At any time, the bill could be moved through the Ways and Means Committee to the House floor, and it could well pass.

Mr. Pease also noted that many of the measures which Japan has taken or is contemplating to increase imports will likely be more than offset by the expected increase in Japanese auto exports to the United States. This fact will only increase the pressure to enact legislation detrimental to Japanese interests. It is in this environment that the delegation has come to Japan to express its desire for a workable, successful resolution to our bilateral trade problems.

Minister Abe indicated he was aware of congressional frustration and outlined in some detail the steps Japan has taken or is considering to deal with the trade problem—tariff cuts; introduction of near self-certification of automobiles; the Action Program; sectoral talks; encouragement of private firms to import more; financial market liberalization to aid in yen appreciation; and expansion of domestic demand. As the greatest beneficiary of the free trade system, Japan bears a large responsibility to open its markets, Minister Abe said.

Mr. Schulze expressed the view that Japanese Government actions will be the key to the future state of United States-Japanese relations. Such steps as the Action Program, the sectoral talks and other measures recently adopted would have been more effective had they been adopted much earlier, before the situation had become so serious. Now it is difficult to say whether the steps taken will be sufficient to prevent serious problems for Japanese access to U.S. markets. Hopefully, Japan will move to launch a fresh beginning in its trade relations with the United States.

Other members also raised questions or concerns of particular interest to them. Mr. Jones noted that in order to alter the macroeconomic factors driving Japan's trade surpluses, either the Japanese people must save less and spend more, or the Government must. He questioned how the Japanese Government could stimulate domestic demand in view of the fact that next year's budget policy is to cut all items except defense and foreign aid. Mr. Thomas, referring to Prime Minister Nakasone's suggestion that each individual in Japan buy $100 worth of foreign goods, noted that $100 is the equivalent of ⅛ to ⅓ the price of a videotape recorder or a good wristwatch and 1/100 the price of an automobile—in other words, purchases of that amount would not significantly reduce the bilateral trade imbalance. He emphasized the appeal of agricultural products from California and other states. Mr. Anthony underscored the fact that constituent pressure is building on the trade

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issue, which is particularly significant since 1986 is an election year. He expressed the hope that the Government of Japan would take the earliest opportunity to make a bold move in the trade area.

Mr. Frenzel noted that he and other members had travelled to Japan on prior occasions, advising the Japanese on the actions they considered necessary to ease the trade problem. He is disappointed that Japanese officials and businessmen didn't take such counsel seriously until recently. Now the time is short, and the Japanese Government cannot solve the problem merely by statements, action programs, or television appearances. Only purchases will resolve the problem. Mr. Pickle voiced his concern about trade in semiconductors and urged Minister Abe to work to open Japan's market fully in that sector. Mr. Campbell reiterated the sense of frustration felt in the United States over the trade issue and stressed that dramatic action must be taken by Japan to quell the intense pressure in the United States for legislation to deal with the problem.

Mr. Gibbons outlined the expected scenario for congressional action in the trade area, with the textile quota bill moving to a vote by mid-October—and a Presidential veto a near certainty—and the Rostenkowski-Gephardt import surcharge bill likely to be taken up next. He noted that the actions outlined by Minister Abe would require some time to be effective and that the trade balance would be slow to adjust to any changes in the macroeconomic picture. Instead, Japan appears to need some concrete goals for the future. While Japan may always have a trade surplus, a surplus of the current magnitude is not tolerable politically in the United States.

Minister Abe responded intermittently to the members' comments. In brief, he reiterated his belief that the Action Program and other Japanese Government efforts would have a positive impact on imports from the United States and other countries, and that a protectionist U.S. response to current frustrations would reverse all support for free trade within Japan. The Japanese Government intends to dismantle nontariff trade barries and stimulate domestic demand through deregulation and other measures designed to encourage increased private sector investment and consumption within Japan. He stressed his belief that Japan has the political will to fulfill its responsibilities and reach a solution to the trade problem.

Meeting with Liberal Democratic Party Diet Members

The delegation held a working lunch with members of the Liberal Democratic Party (LDP) External Economic Affairs Coordination Committee, hosted by Chairman Masumu Esaki.

Chairman Esaki described in detail the steps which the Japanese Government has taken to reduce the admittedly "abnormal" trade imbalance between the United States and Japan. Such steps include the Action Program, tariff cuts, changes in standards and certification procedures, consideration of methods to stimulate domestic demand, facilitation of foreign direct investment, plans to purchase two or three foreign satellites and possibly an aircraft, liberalization of financial markets, and efforts to develop an emergency import or "bridge" program. The bridge program consists of

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government encouragement to private Japanese firms to step up purchases of foreign goods—with a target of $5 billion in increased imports—and import fairs in department stores to increase Japanese consumers' familiarity with U.S. products.

Delegation members responded by noting how volatile the trade issue had become in the U.S. Congress and among their constituents. They stressed the need for elected officials in the Diet to take the lead in instructing the Japanese bureaucracy to develop a constructive response to the trade problem; they also pointed to the need for dramatic, conclusive results from recent liberalization measures. Mr. Anthony noted his concern that recent offset and barter agreements between Japan and the People's Republic of China in the area of agriculture (under which Japan has agreed to accept Chinese agricultural products as a condition for Japanese sales of high technology goods to China) are leading to a loss of the U.S. share of Japan's market for farm products. Members generally underscored the seriousness of the political climate for trade issues in the United States.

Meeting with Keidanren

Participants in the meeting with the prominent business organization, Keidanren, included the Chairmen and senior executives of about 25 of the largest Japanese firms. (See appendix L) Discussion was livelier and a bit more contentious than in other meetings.

Keidanren Vice Chairman Norishige Hasegawa, who also is Chairman of Sumitomo Chemical Corporation, opened the meeting by likening Japan to a figure in a Greek tragedy, working sincerely toward a goal and then finding itself a central figure in the tragedy. He outlined measures which had been taken to open Japan's markets, such as the Action Program, the sectoral talks in four key industries, and the tariff cuts which, he added, unfortunately did not contain sufficient items of interest to the United States. The effects of the Action Program admittedly will take time, but the business community is urging the government to take even more steps. He alluded to the many bills pending in Congress and expressed his hope that good will could help solve United States-Japanese trade problems. Finally, he noted the serious problems the strong dollar causes for U.S. firms, adding that there is little the Japanese business community can do about that.

Chairman Gibbons noted the importance of Keidanren and the potential significance of this meeting for the future course of the United States-Japanese trade relationship. He added that while we know the dollar is a serious impediment to U.S. international competitiveness, the yen has appreciated substantially against the world's currencies in recent years, yet Japan has not seen a sharp increase in imports, as has occurred in the case of the United States.

Mr. Pickle and Mr. Schulze followed with comments. Mr. Pickle noted the importance of the semiconductor industry in his district and called upon those present to set a specific goal for substantially increased purchases of U.S. semiconductors. He said we are proud of the fact that Japan is our second largest trading partner; we want to build on that relationship. While the dollar is an important cause of our trade deficit, clearly there are steps Japan can

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take to make its markets more accessible to U.S. goods. The U.S. trade deficit is a national and international problem; if we don't get some help, the bubble will burst.

Mr. Schulze commented that in a Greek tragedy, the hero is often given the opportunity to escape the tragedy; but he takes the wrong door, even though the audience knows it is the wrong door. In the case of United States-Japanese trade, the time is nearly past to avert passage of protectionist legislation; and Japan has much to lose from such action. He called on the Japanese participants to urge the Japanese Government to relieve the huge imbalance in trade. Perhaps then we can turn a Greek tragedy into a Greek comedy.

Mr. Akio Morita, Chairman of Sony Corporation continued the discussion with the comment that trade flows essentially respond to the factors of price and quality. Today's exchange rates are not at proper levels; as a result, U.S. exports are suffering and U.S. firms are moving plants offshore in order to remain profitable. As Chairman of Keidanren's International Investment Committee, Morita said he is encouraging investment both ways—Japanese investment in the United States and U.S. investment in Japan. When Japanese firms invest in the United States, they reduce Japanese exports and create U.S. jobs at the expense of profits. The opposite phenomenon occurs when U.S. firms invest offshore. He added that if the U.S. Congress acts in the wrong way on the trade issue, it could lead to a crisis, in part because the flow of high technology products into Japan now helps supply U.S. manufacturers who have plants in Japan. Mr. Morita next pointed to the comment made by some members of the delegation—that there is not much time remaining to solve the United States-Japanese trade problem in a constructive way. He challenged that statement and said that delegation members also should understand that something must be done soon to help U.S. industry.

Mr. Jones noted that the yen/dollar relationship has not changed substantially since 1980, yet the bilateral trade imbalance has grown from $12 billion in that year to a projected $50 billion in 1985. He commented that it is important for Japan to recycle its excess funds into the United States as productive, direct investment, thereby helping create jobs and easing pressure on the trade front. He then commented that an effective Action Program presupposes an expansion of domestic demand. Yet the Japanese Government's budget provides for cuts in all areas except defense and foreign aid; and there do not seem to be the requisite changes planned in such areas as advertising policies, distribution policies, or interest rate policy to stimulate domestic demand. Such changes would seem necessary to assure that the Action Program will lead to measurable results.

Mr. Eishiro Saito, Vice Chairman of Keidanren and Chairman of Nippon Steel Corporation, began remarks which had to be cut short to enable the delegation to proceed to the meeting with Prime Minister Nakasone. The thrust of his remarks was to explain Japan's propensity to export processed goods due to the country's lack of natural resources; in such circumstances, it is quite natural to have trade imbalances. He then noted the shift in the Japanese Government attitude, from one of export promotion to

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one of import promotion. Japan is making its best effort to resolve the trade problem, he concluded.

Chairman Gibbons concluded the meeting by saying that the United States has no more political ability to absorb larger trade deficits.

Meeting with the American Chamber of Commerce of Japan

The delegation held a working breakfast with the American Chamber of Commerce of Japan (ACCJ). The meeting was attended by representatives from 22 U.S. firms doing business in Japan. The meeting offered an opportunity for U.S. business representatives with direct experience in Japan to convey to delegation members their view of the environment for foreign business in Japan. Much of the discussion focussed on the anticipated effects of the Japanese Government's Action Plan.

In general, the Action Program was seen by ACCJ members as part of an ongoing process. In the area of government procurement, ACCJ spokesmen suggested that the proposed changes offer potentially major opportunities for foreign firms, particularly the proposals for increased transparency. Representatives of U.S. auto companies and cosmetic firms were encouraged by the changes introduced. The special procedures for handling small volumes of imported automobiles were viewed as helpful. In addition, the Ministry of Transportation has agreed to hold regular meetings with U.S. auto firms as the new system becomes operative. In the area of cosmetics, the changes proposed also were viewed as significant. The proposed "notification only" system of product content will significantly reduce the time necessary to prepare goods for the market, although firms still will be required to give their formula to the Japanese Government. The proposed changes in product approval represent a major change from the practice just two years previous, under which the Japanese Government maintained a positive list of contents approved for sale on the market. The list was not available to producers, and it proved very much a guessing game to determine whether a product would be approved or, if it were not approved, what the objectionable contents were.

The Action Program statements with regard to the entry of foreign lawyers in Japan were viewed as largely inadequate. Since 1955, when the limitation on foreign lawyers practicing in Japan was lifted, not one U.S. lawyer has been admitted. It is not at all clear that the Japanese Government intends to assert its authority over the Japanese lawyer's association, Nichibenren, in drafting a liberalization plan for foreign lawyers. If that proves to be the case, it is not likely that the proposed plan will represent a significant liberalization.

In the area of semiconductors and semiconductor equipment, ACCJ members indicated that U.S. firms are beginning to lose market share to Japanese firms. Spokesmen indicated it does not appear the Action Program or other measures will deal with this problem.

Mr. Jones, speaking for the delegation, noted that the delegation's attitude on its current trip to Japan differs from the attitude of previous Ways and Means Committee delegations. Past delegation's came with a list of specific concerns and a sense of confi-

dence that if they could get their message across to the Japanese, the trade problem could be solved. Now the delegation comes with a sense of resignation and frustration. Some members of the group consider themselves committed free traders; yet the members carrying that banner are outnumbered. There will be trade legislation this year, with several possible vehicles already pending in the Ways and Means Committee. The delegation recognizes and appreciates the movement by the Japanese in the trade area, particularly by Prime Minister Nakasone. But reaction to the Action Program is lukewarm even among those looking for positive elements in the plan. We are not optimistic. The ax is finally ready to fall—whether lightly or heavily is hard to say at this juncture. The President will veto most pieces of legislation, but there will be some bills that he needs.

Chairman Gibbons reiterated Mr. Jones' comments, noting that he has never seen the situation so bad. The Action Program would have been a very good development if introduced five or seven years ago. As it is now, time is critical, and no one legislator—even the chairman of the Trade Subcommittee—will be able to stop the movement of trade legislation.

BRIEFING BY AMBASSADOR MANSFIELD

Ambassador Michael J. Mansfield and senior embassy staff briefed the delegation on current issues in United States-Japanese trade relations. The discussion was quite wide-ranging and proved to be a very useful backdrop for the delegation's subsequent meetings with Japanese business and government leaders. A number of key points from the meeting are worth noting.

After emphasizing that the United States-Japan relationship is the most important bilateral relationship in the world, Ambassador Mansfield expressed the view that the key word in United States-Japanese trade relations is access. Japan's largest export market is the Untied States; if the Japanese want to keep that market, they should open their own market far more than they have to date. Prime Minister Nakasone is a very high caliber leader and is doing the best he can. But he can't wave a wand. He has problems within the Diet and the various factions of the Liberal Democratic Party; and the private sector does not yet seem to understand the urgency of the need to liberalize Japan's market. Consumers in Japan do not have much choice or truly competitive prices, due to the old-boy network in business. A change in current attitudes is necessary. The Ambassador noted that he had proposed recently that Japan eliminate all tariffs and quotas to deal with its growing trade surpluses with the United States and other countries.

Ambassador Mansfield noted that there are many things the United States can do to improve its own competitiveness: we can improve labor-management relations; update antitrust laws; amend the Foreign Corrupt Practices Act to put U.S. firms on an equal footing with their competitors; remove restrictions on the export of Alaskan oil; and reduce our large fiscal deficits to correct the problem of a highly overvalued dollar. Bills and resolutions won't solve our trade problems. The Japanese are moving too slowly, but nothing will solve our trade deficit in the short term.

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Delegation members and Ambassador Mansfield agreed that current frustrations and pressures in the trade area probably would result in the passage of protectionist legislation this year—with a Presidential veto of the worst bills likely—and that the issue of trade could be a key issue in the 1986 elections.

The delegation praised Ambassador Mansfield for his skilled and dedicated representation of United States interests in Japan.

Conclusion

While the overall U.S. trade deficit and the Japanese trade surplus stem in part from factors not amenable to short-term correction, the delegation believes there are steps which Japan could take to reduce its large trade surpluses, both on a bilateral and a global basis. Even a resource-poor country such as Japan does not require trade surpluses in the $50 billion range in order to sustain itself in this highly interdependent world. Surpluses of that magnitude, and the experience of other countries—including some of the countries visited by the delegation—suggest that the United States is not alone in its export difficulties vis-a-vis Japan. One of the problems which the delegation believes confronts Japan in its trade relations with the United States and other countries is that as a successful seller to the rest of the world, Japan must learn to be a more successful buyer.

The delegation notes with appreciation the active leadership role which Prime Minister Nakasone has taken in an effort to open Japan's markets further to goods from other countries and to ease trade frictions between the United States and Japan. However, the Prime Minister cannot bring about the necessary changes in Japan's trade and overall economic policies without the support of key constituencies within Japan, particularly within the Diet and the business community. While some members of the Diet and the business community appear to support the goal of liberalizing and deregulating Japan's market, the delegation is concerned that support for that goal is not sufficiently widespread to assure its success.

The Action Program was mentioned repeatedly in meetings with the delegation as evidence of the good faith efforts of the Japanese Government to respond to complaints about market access from the United States and other countries. The delegation welcomes the Action Program as an important step toward greater market liberalization but believes that the ultimate success of the Program remains to be seen. Of equal or greater importance is the consideration being given in Japan to further strengthening of domestic demand and measures to aid in yen appreciation. In this regard, the delegation notes that a substantial reduction of the large U.S. fiscal deficit would contribute greatly to bringing about a better match of United States and Japanese economic policies and in helping reduce upward pressure on the dollar.

Support for a generally free and open trading system rests ultimately on the belief that trade offers mutually beneficial opportunities for all trading nations. Our trade relations with Japan lack the sense of mutual opportunity which, in general, characterizes our trading relations with other countries. The attitudes and eco-

nomic policies which have served Japan so well in the postwar years should be reexamined and, if necessary, modified to move Japan from a path of predominantly export-led growth to a path of domestically-led growth—a path which will create opportunities for ever-expanding world trade and a higher standard of living for Japanese citizens. The alternative—trade restrictions imposed by the United States and Japan's other major trading partners—would lead to the shrinkage of world trade and a lower standard of living not only for Japan but for the United States and other trading nations as well. Unless Japan moves quickly and dramatically to reduce its trade surplus with the United States and provides reciprocal access to its domestic market, protectionist policies and legislation may result which would affect not only Japan, but the entire world trading system as well.

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People's Republic of China (PRC)

Overview

The delegation visited the People's Republic of China (PRC) on two separate occasions during the trade mission. On August 9 and 10, the delegation held discussions in Beijing, and on August 22 and 23, discussions were held in Guangdong Province. The purpose of the visit to Beijing was to discuss overall issues related to bilateral economic and political relations. The purpose of the visit to Guangdong Province was more specifically to examine the economic development that has occurred in that area as a result of the special incentives to promote foreign investment in special economic zones. The delegation wishes to express its appreciation to the Financial and Economic Committee of the National People's Congress, our official host, for the outstanding hospitality and arrangements provided during our visit.

China is the oldest continuous major world civilization, and is the world's third largest country in total area. With a population of over one billion people, accounting for approximately one-quarter of the world's population, China's potential role in the international marketplace is enormous. Steps to open China's economy to international trade and investment have been taken during the past decade as part of the China's general economic reform efforts.

In 1975, Premier Zhou Enlai outlined a new set of economic goals designed to elevate China to the status of a "front rank" economic power by the year 2000. This multistage effort, described as the "four modernizations" program, aimed at achieving ambitious levels of production in Chinese agriculture, industry, science and technology, and national defense. In 1976, the death of Chairman Mao, the arrest of the Gang of Four, and the gradual establishment of a new moderate government under Deng Xiaoping and Hua Guofeng sharply reduced the role of ideology in Chinese policy and thus removed the primary source of the disorder that had plagued China for the past decade. The stage was set for a more pragmatic look at the political and economic problems facing the country.

China's commitment to the "four modernizations" was reaffirmed in 1978 at the Fifth National People's Congress. A 10-year plan assigned a major role to massive imports of complete plants and technology from the West. By the end of the year, China had signed contracts committing itself to foreign purchases totaling $7 billion.

Poor economic performance during 1978, however, produced a more sober appraisal by the Chinese leadership of the gap between China's capabilities and its ambitions. In late 1978, at the Third Plenum (of the 11th Central Committee), the 10-year plan was replaced by a more moderate, short-term program aimed at improving domestic conditions—insufficient energy production, poor trans-

portation, and other infrastructure gaps—that constrained economic development. The 1979–81 period was to be devoted to economic "readjustment". Hundreds of industrial capital construction projects were canceled or postponed. as resources were shifted away from heavy industry toward light industry and agriculture. At the same time, China's leaders attempted to decentralize economic decisionmaking to the local government and enterprise level. The Third Plenum also decided to push the pace of legal reform, culminating in the passage of several new legal codes by the National People's Congress in June 1979.

Leaders attending the third session of the Fifth National People's Congress in August 1980 pressed ahead with the new economic policies. In an accelerated drive toward readjustment and reform, they endorsed a controversial reform package that would reduce the role of central management in favor of mixed, planned-market economy. Key elements were expanded self-management right, introduction of greater competition in the marketplace, an easing of the tax burden on nonstate enterprises, and a new policy facilitating direct contact between Chinese and foreign trading enterprises.

The sixth 5-year plan (1981–85), announced in December 1982, presents in detail the leadership's strategy for laying a solid economic base to support the planned high growth of the late 1980s and the 1990s. The Chinese will make an ambitious attempt to control and direct growth while increasing the efficiency of management and investment spending. Planned budget and trade deficits, along with Premier Zhao's call for increased use of foreign funds, indicate that China will depend more on foreign financing and imports to meet its planned targets.

During the period 1982–1985, China has experienced strong economic growth and successful implementation of many of its reforms. Reforms in the agricultural sector have increased agricultural output nearly 50 percent and more than doubled rural income (from 1978 levels). Chinese national income (GNP equivalent) during 1984 grew 12 percent in real terms. Gross output of agriculture and industry, capital investment, retail sales, and foreign trade went up by even larger margins. Inflation was reported at under three percent.

Encouraged by the strong economic performance since 1982 and the success of rural reform, China's Party leaders in October, 1984, released an impressive blueprint for thoroughgoing reform of the entire economic structure. The Third Plenum Decision (of the Party's 12th Central Committee) called for establishment of a "socialist commodity economy with Chinese characteristics" to replace the overly centralized, high investment and heavy industry-oriented system patterned after that of the Soviet Union. Major attention will be focused on urban, industrial reform, but new measures will also seek to extend the successes already realized in the rural areas. The State's role in the economy, while remaining critical, will shrink, allowing greater room for the interplay of market forces. Also, the form of state control will change to a greater reliance on economic "levers" such as prices, taxes, and credit, rather than direct administrative fiat. Key elements in the reform program include relaxing the planning system to give enteprises great-

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er autonomy, strengthening the banking system to help concentrate investment capital and control credit expansion, taking ambitious steps in the price reform, and overhauling the overly "egalitarian" wage system.

By the spring of 1985, China's leadership was expressing concern that the pace of growth was too fast to sustain. The gross value of industrial output at an annual rate of 23.2 percent from January through May. Capital construction investment rose by nearly 40 percent in the same period. In late March Premier Zhao Ziyang warned against the danger of "blindly pursuing a higher development rate". Unless this wide-spread tendency is checked, he warned, it would "strain the entire economic life of the country and hinder the smooth progress of our reform". The leadership hopes to cool the pace of advance to a more manageable 7–8 percent.

United States–China Trade Relations

TRADE AND INVESTMENT TRENDS

Since normalization of diplomatic relations between the United States and the PRC on January 1, 1979, economic relations between our countries have grown remarkably. Bilateral trade increased from $2.3 billion in 1979 to $6.4 billion in 1984, and is expected to reach $7 billion by the end of this year. The United States is China's third largest trading partner, after Japan and Hong Kong, while China is now the United States' 19th largest trading partner.

U.S. TRADE WITH CHINA

[In billions]

	1981	1982	1983	1984
Total trade	$5.7	$5.4	$4.7	$6.4
U.S. exports (f.a.s.)	3.6	2.9	2.2	3.0
U.S. imports (c.i.f.)	2.1	2.5	2.5	3.4
Trade balance	1.5	.4	−.3	−.4

In addition to a change in the size of bilateral trade, the composition of bilateral trade has also changed significantly. Until recently, agricultural products dominated U.S. exports to China. In 1982, for example, agriculture accounted for more than half of our total exports to China. By 1984, agriculture's share fell to just 20 percent. Two factors accounted for this change. First, record harvests reduced China's import demand. Second, China began exporting several commodities, including cotton and corn, that it formerly imported from the United States. The decline in U.S. agricultural exports however, has been more than offset by growing U.S. exports of manufactured products and technology, which now account for more than 80 percent of total U.S. exports to China.

U.S. imports from China are dominated by textiles and apparel, which comprised 42 percent of total imports from China in 1984. China is now our fourth largest supplier of textiles and apparel, ac-

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counting for about 10 percent of our total imports of these products. Other major imports from China include petroleum products, toys, chemical compounds, metal products, and vegetables and fruit.

VOLUME AND COMPOSITION OF UNITED STATES-CHINA TRADE

[In millions of U.S. dollars]

	1980	1981	1982	1983	1984	January–February	
						1984	1985
U.S. exports (f.a.s.):							
Manufactured goods	1,225.9	1,138.9	1,071.8	1,325.9	1,945.7	254.1	440.9
Agriculture commodities	2,209.6	1,956.4	1,498.0	546.4	614.8	117.3	39.4
Other	318.9	507.4	342.3	300.8	443.5	53.6	61.1
Total	3,754.4	3,602.7	2,912.1	2,173.1	3,004.1	425.0	541.4
U.S. exports (c.i.f.):							
Manufactured goods	788.2	1,256.2	1,562.0	1,748.4	2,401.3	419.1	432.2
Agriculture commodities	147.8	355.3	191.3	189.2	213.3	37.8	35.1
Other	225.1	450.8	749.1	539.2	766.6	96.4	160.6
Total	1,161.1	2,062.3	2,502.4	2,476.8	3,381.2	553.3	627.9
Trade turnover	4,915.5	5,665.0	5,414.5	4,649.9	6,385.2	978.3	1,169.3
Trade balance	+2,593.3	+1,540.4	+409.7	−303.7	−377.2	−128.3	−86.5

Source: U.S. Bureau of the Census.

LEADING U.S. EXPORTS TO CHINA, 1980–85

[F.a.s. millions of U.S. dollars]

1984 rank	1980	1981	1982	1983	1984	January–February	
						1984	1985
1. Wheat	1,039.3	1,269.0	1,046.7	377.7	575.3	114.5	32.7
2. Logs and lumber	41.4	89.2	212.1	227.9	271.8	44.3	27.4
3. Fertilizers	152.6	131.0	147.0	167.7	267.3	62.2	92.0
4. Locomotives and rolling stock	.4	0	0	.1	240.9	.1	36.5
5. Synthetic resins	123.8	170.0	237.3	91.8	234.0	35.3	39.6
6. Measuring and controlling instruments	40.9	51.8	64.1	139.5	176.1	20.2	36.9
7. Construction and mining machinery	42.7	31.8	47.8	51.1	136.1	7.1	51.7
8. Aircraft	155.1	7.8	19.0	234.8	113.8	41.1	5.5
9. Chemical elements and compounds	91.4	66.1	49.7	54.9	118.4	22.9	6.8
10. Synthetic fibers	193.9	327.2	95.1	28.8	95.7	4.9	24.9
11. Automatic date processing machines and parts	22.7	13.5	25.0	36.9	77.8	3.4	35.1

Source: U.S. Bureau of the Census.

LEADING U.S. IMPORTS FROM CHINA, 1980–85

[C.i.f. millions of U.S. dollars]

1984 rank	1980	1981	1982	1983	1984	January–February	
						1984	1985
1. Clothing and accessories	299.4	505.6	752.4	909.4	1,119.7	214.7	187.1
2. Petroleum products	131.1	319.5	431.4	383.5	406.5	63.1	11.8
3. Textile yarns and fabrics	69.3	129.8	106.5	112.5	183.5	30.4	26.4
4. Crude petroleum	20.1	0	212.1	85.0	249.0	16.9	123.6
5. Baby carriages, toys, sporting goods	2.8	6.7	20.6	22.0	130.1	9.7	38.7

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LEADING U.S. IMPORTS FROM CHINA, 1980–85—Continued

[C.i.f. millions of U.S. dollars]

1984 rank	1980	1981	1982	1983	1984	January–February	
						1984	1985
6. Luggage and handbags	3.1	16.7	31.0	45.7	104.3	12.8	21.2
7. Floor covering and tapestries	53.2	71.3	58.1	66.3	96.3	18.6	20.9
8. Vegetable roots and tubers	23.0	38.7	48.0	43.6	61.7	9.5	9.7
9. Crude minerals	40.6	53.4	60.1	47.1	57.0	9.1	8.7
10. Collector's items including numismatic coins	39.3	27.0	22.1	28.0	52.8	9.5	8.6
11. Footwear	22.0	39.1	42.9	38.2	48.3	8.6	12.2

Source: U.S. Bureau of the Census.

One area of friction relating to the bilateral trade balance involves the measuring of trade through Hong Kong. The Chinese government's export trade statistics do not count exports from China to Hong Kong which are then re-exported to the United States, as exports to the United States. Similarly, China's imports of U.S. goods entering through Hong Kong are not counted as imports from the United States. The U.S. practice however, is to characterize imports and exports according to their country of origin. As a result of the discrepancy in methodology, Chinese trade statistics show a bilateral trade deficit, while U.S. trade statistics show a bilateral trade surplus in China's favor.

U.S. investment in China has also continued to grow. As of mid-1985 U.S. equity investment in China exceeded $750 million. Offshore oil exploration, with only two years of activity, accounts for over $600 million, while U.S. equity investment in over 21 joint ventures accounts for over $150 million. Many other U.S. companies, though not ready to commit their own capital in China, are investigating coproduction and licensing arrangements, especially in manufacturing.

Twelve U.S. firms are currently involved in China's offshore oil exploration efforts. A high percentage of wells drilled have been dry, and there have been no commercial finds. The disappointing results so far, along with weakened world prices for crude oil, will affect both the response to a new round of bidding for prospecting contracts and the contract conditions the Chinese will be able to obtain. U.S. participation in China's growing nuclear energy market should increase following the implementation of the United States-China nuclear cooperation agreement. Prospects are good for U.S. firms contributing to China's development of untapped hydropower and coal resources.

B. BILATERAL AGREEMENTS

Since normalization of diplomatic relations in 1979, a significant number of bilateral agreements have been concluded between the United States and China. The United States-China Claims Settlement Agreement of May 1979 resolved the outstanding financial claims of each country against the other, and cleared the way for U.S. investment in China.

The United States-PRC Trade Agreement was also signed in 1979, and provides the basic foundation for our overall trade rela-

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tions. In February 1983 the agreement was extended for another 3 years. The most important aspect of the agreement is the mutual application of most-favored-nation (MFN) treatment. In addition, the Trade Agreement specifies that commercial transactions "will be concluded on the basis of customary international trade practice and commercial considerations such as price, quality, delivery, and terms of payment." Other sections of the agreement provide for facilitation of establishment of business offices; facilitation of financial, currency and banking transactions; and protection of patents, trademarks, and copyrights. The agreement further provides for consultations to seek solutions to trade problems and settlement of disputes between firms.

On June 3, 1985, President Reagan notified the Congress of his determination of a further extension of the waiver authority under section 402 of the Trade Act of 1974, thereby renewing MFN status for China. In his message, the President noted that China continued its relatively open emigration policy throughout the past year. In fiscal year 1984, the U.S. Embassy and Consulates in China issued nearly 13,000 immigrant visas, 30 percent more than the 10,000 issued the previous fiscal year.

During Premier Zhao's visit to the United States in January 1984, an Industrial and Technological Cooperation Accord was signed, which will assist U.S. businesses who wish to participate in China's modernization. This Accord provides a framework for United States-China cooperation in specific industrial sectors. By May 1985, four Work Programs had been established under the Accord: for electronics/telecommunication, metallurgical industries, industrial renovation, and aerospace. Each Work Program calls for project identification and exchanges of delegations to promote cooperation and contracts.

At the time of the signing of the Industrial and Technological Cooperation Accord, the United States-China Science and Technology Agreement was also extended for another five years.

During President Reagan's visit to China in April of 1984, the United States-China Cultural Accord was renewed and several new or extended protocols to the Science and Technology Agreement were signed. A bilateral tax treaty was also signed at that time, which is still awaiting ratification by the U.S. Senate.

In June of 1984, Defense Minister Zhang Aiping visited the United States, and President Reagan signed a determination of foreign military sales eligibility for China, which permits China to purchase and lease defense goods and services on a government-to-government basis rather than exclusively through commercial channels.

A United States-China peaceful nuclear cooperation agreement was initialed during President Reagan's April 1984 trip to China. U.S. agencies confirmed that the text of the agreement meets the requirements of U.S. domestic law, but for more than a year, further U.S. action on the agreement was halted, pending Chinese clarification of certain aspects of their nonproliferation policy and practices. Following a June 1985 visit to China by a U.S. delegation, the nuclear cooperation agreement and necessary accompanying papers were prepared for final submission to the President.

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During President Li Xiannian's visit to the United States in July 1985, the nuclear cooperation agreement was formally signed.

In June 1983, the United States and China began negotiations on a bilateral investment treaty. The aim of such an agreement is to protect U.S. investment in the areas of dispute resolution, transfer of funds, compensation for expropriation, and treatment of investment. Despite six rounds of negotiations however, (the most recent being April 1985) final agreement has been hindered by some major differences between our two countries on certain fundamental issues. Among the issues which are still outstanding are the following: (1) China's unwillingness to accept third party arbitration of disputes (except for the amount of expropriation compensation), (2) China's reluctance to agree to international law standards for expropriation and the treatment of investment; and (3) China's desire to subject most treaty rights to national law.

The first U.S.-PRC textile agreement expired on December 31, 1982. After seven rounds of negotiations, a new bilateral textile agreement was signed in August 1983. This agreement, which is due to expire December 31, 1987, set 33 specific limits covering 76 percent of China's textile trade. Since the agreement went into effect, additional restraints have been negotiated to cover a total of 79 percent of China's textile trade.

In addition to these agreements, other bilateral agreements between the United States and China are in effect relating to civil aviation, commercial exhibition, consular affairs, postal and express mail, Eximbank and OPIC. In recent years, China has also become more active in multilateral organizations. Since 1978, China has become a member of both the International Monetary Fund and the World Bank. Although China is not currently a member of the General Agreement on Tariffs and Trade (GATT), it does have observer status in GATT and is reported to be considering full membership.

C. MARKET ACCESS

Access to foreign markets for U.S. goods and services is a fundamental concern of U.S. trade policy today. Many members of the U.S. business community feel that China has moved too slowly to reduce the problems of foreign access to the Chinese market—that China's "open door" policy has only opened one way. Among the barriers of concern to U.S. businesses trying to enter the Chinese market are customs duties, import licensing requirements, regulation of service industries, bidding procedures, and lack of protection for intellectual property.

Customs duties.—Customs duties in the PRC are generally much higher than those in the United States. Duties on some products are as high as 200 percent. Uneven application of tariffs, resulting from the lack of a detailed and readily available tariff schedule, exacerbate the problem for companies trying to plan their costs in advance of their entry into the China market. These high tariffs raise the prices of U.S. goods, and protect inefficient Chinese industries.

On March 10, 1985, China revamped its tariff regulations. The import duties on raw materials and some high technology goods were lowered, and nearly all export duties were abolished. Duties

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are now assessed according to country of origin rather than seller. Preferential policies for the special economic zones and joint ventures have been incorporated into the new regulations. Firm tariff rates for general imports and imports from MFN partners are intended to eliminate local discretion and variations in tariff levies.

Shortly before the congressional delegation's arrival in China, press reports announced China's imposition of a new "import regulatory tax" to stem the flow of imports into China. The new import tax is expected to hit hard on foreign companies managing representatives offices in China, and will be in addition to existing duties on these products. The reported tariff increases include the following:

Additional tariff increases

Product	*Percent*
Cars and minibuses	80
Minicomputers	80
Photocopy machines	80
Videorecorders	70
Color televisions	70
Trucks	50
Processed polyester yarn	40
Synthetic fabrics	40

At the time of the delegation's visit to China in August, U.S. Government agencies were still awaiting notification and explanation of the new import tax.

Import licensing.—In the past all imports into the PRC required import licenses. Regulations issued last year free most goods from import licensing requirements if they are purchased through national trading companies. Goods purchased for joint ventures and businesses operating in the special economic zones are subject to more lenient licensing requirements. All other commercial enterprises, however, still must obtain licenses for all imports. Overseeing the licensing procedure is the Foreign Trade Administration of the Ministry of Foreign Economic Relations and Trade (MOFERT).

Service industries.—Access to the Chinese market for foreign businesses in service industries remains highly restricted. The banking, insurance, and legal service sectors are three areas of concern to U.S. businesses.

Foreign banks argue that the People's Bank of China (PBOC) is still "very restrictive" in its attitude toward foreign banks even though many Chinese corporations are dissatisfied with PBOC's services. Foreign banks want the freedom to provide such services as opening letters of credit on behalf of Chinese corporations and opening current and deposit accounts on behalf of Chinese corporate and individual customers.

Foreign banks have been able to set up representative offices in China since late 1979. These offices are not allowed to conduct traditional banking business, but are restricted to nonprofit activities such as liaison work, consulting, and negotiating. Only four foreign banks currently have branches in China: the Shanghai branches of the Hong Kong and Shanghai Banking Corporation, Chartered Bank, and the Bank of East Asia (all "left over" from the years prior to the establishment of the People's Republic in 1949); as well as the recently established branches of the Nanyang Commercial

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Bank (a Hong Kong affiliate of the Bank of China) in Shenzhen and Shekou.

Approximately 60 foreign banks have set up representative offices since 1979. The great majority of these are in Beijing. Twenty-two Japanese banks lead the list, followed by eight U.S. banks: American Express, Bank of America, Chase Manhattan, Chemical Bank, Citibank, First Chicago, First Interstate, and Manufacturers Hanover.

Despite the fact that Chinese joint ventures with foreign insurance firms have been negotiated in recent years, there are still two important restrictions on the operation of U.S. insurance companies in China. First, they cannot operate in the domestic Chinese market, and secondly Chinese exports to the U.S. are generally CIF and Chinese imports from the U.S. are on an FOB basis, thus allowing the PRC to place virtually all of its insurance with the People's Insurance Company of China (PICC).

Important barriers also exist in China in the area of legal services. While able to represent Chinese organizations in the United States, American lawyers in China are limited to providing services solely for foreign organizations doing business in China. U.S. lawyers in China are also unable to register as official representative offices.

Protection of intellectual property rights.—To encourage technology transfer to China, the PRC has begun over the past few years to upgrade their system for protecting intellectual property. A new trademark law went into effect in March 1983, and on April 1, 1985 a new patent law entered into force. At this time the Chinese do not have a copyright law, although they are in the process of drafting one. Despite Chinese progress in intellectual property protection, a number of problems remain.

In March 1985, the PRC joined the Paris Convention for the Protection of Industrial Property which accords national treatment to its 96 members, and also sets minimum protection standards. In April 1985, the new Chinese patent law became effective. The Chinese law is similar to those of Western Europe, Japan, and the United States. However, unlike the Western-style patent systems, the Chinese law will not provide protection for chemical compounds. This will discourage U.S. pharmaceutical and agricultural chemical companies from dealing with China. Computer software is also unprotected by the patent law, as are inventions patented before October 1, 1984.

While the 1983 trademark law is a great improvement over China's previous trademark position, there are still problems. In addition to the vague wording of the statute, service marks and unregistered trademarks presently in use in the PRC are unprotected by the new law.

Business conditions.—While improving rapidly, business conditions in China still present major challenges to U.S. companies. The lack of both adequate physical and service support and the high cost of doing business prevent U.S. firms, especially small and medium size firms, from pursuing commercial opportunities.

Most foreign businesses have to operate out of hotel rooms which, in addition to being scarce, are expensive and not comparable to standard Western office facilities. The high cost of office

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space is compounded by the high duties placed on imports of office equipment and supplies after the first duty-free shipment. The severe lack of living quarters for resident foreign business people forces almost all of them to stay in hotels. The hotels are more costly than apartments, but far less comfortable or convenient.

The scarcity and high cost of business facilities make the costs of doing business in China among the most expensive in the world. In addition, China's multi-tiered pricing system discriminates against Western business representatives. This has had the unwanted effect of driving away the same small and medium-size firms that China has been so anxious to seek out.

In addition to the shortage of physical business facilities, there is also a critical shortage or inadequacy of Chinese-supplied business services. Banking, legal, and secretarial services have been inadequate to meet U.S. firms' requirements. Yet, China has severely restricted the activities of U.S. service firms who could alleviate these problems. Financial services are only available through the Bank of China which has neither the time nor the expertise to supply the sophisticated financial services U.S. firms have found indispensible in their international business dealings. Telecommunications services are very limited in China. Inadequate communications facilities lead to delays in sending or receiving telex and phone messages, and the cost of doing either is steep. Transportation costs are also very high. Airfares in China are generally higher than in other parts of the world because of CAAC's virtual monopoly on air travel. Infrequent service and the cost disparity between native and expartiate passenger fares are other problems.

D. U.S. EXPORT CONTROLS

During the past several years significant progress has been made in liberalizing U.S. export licensing policy toward China. In June 1983, President Reagan announced that he was amending U.S. export control procedures to recognize the PRC's status as a "friendly, non-allied country". A directive was issued stating that the United States "supports a secure, friendly, and modernized China" and permitting the approval of exports of goods and technology at levels twice those approved to the Soviet Union.

In November 1983 revised export control regulations went into effect which moved China into Country Group V, along with other friendly Asian, African, and European countries. The revised regulations established new guidelines in seven commodity areas to permit the export of high levels of technology considered most important to China's modernization program. These seven commodity categories represented 75 percent of all applications for exports to the PRC.

Under the revised regulations, equipment and technology subject to export control were divided into three zones: red (no export license granted), yellow (subject to case-by-case review), and green, (subject to review only by the Commerce Department; no interagency review). Among the products designated in the green zone that would be routinely approved for export to acceptable China end-users were certain computers, computerized instruments, mi-

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crocircuits, electronic instruments, recording equipment, and semiconductor production equipment.

Certain U.S. exports to China, however, remain subject to national security review in light of China's unique strategic capabilities. Areas of potential national security concern include nuclear weapons, and delivery systems, intelligence gathering, electronic warfare, antisubmarine warfare, power projection, and air superiority. The present export control policy is designed to allow U.S. exporters to participate fully in China's modernization program while retaining control on certain sensitive equipment and technology.

As a result of the revised export control policy, the volume of license application received for exports to China has risen dramatically from a level of 262 cases in 1982 to over 9,600 in 1984. The dollar value of export licenses approved for China by the Department of Commerce increased from $523 million in 1982 to $2 billion in 1984. Average case processing time in 1984 for green zone cases was approximately six months; for yellow zone cases between 7 and 9 months.

Although the new guidelines have aided to increase high-technology exports to China, the sheer volume of license applications is placing a growing strain on both the U.S. and multilateral review processes. Despite the elimination of interagency review for applications in the green zones, the Coordinating Committee for Multilateral Export Controls (COCOM) still must review all cases in commodity categories subject to multilateral controls. The United States is in continuing consultation with our COCOM partners to streamline and simplify approval of those China cases that have become routine.

E. U.S. INVESTMENT IN CHINA

To encourage investment, preferential treatment has been offered to foreign businesses in the form of tax holidays, special customs allowances, and other resources access and cost incentives. These have been formalized for the four Special Economic Zones (SEZ's) of Shenzhen, Shantou, Zhuhai, and Xiamen, and for Hainan Island. Similar, though somewhat less liberal, incentives are being offered in the fourteen open coastal cities: Dalian, Qinhuangdao, Tianjin, Nantong, Shanghai, Yantai, Qingdao, Lianyungang, Ningpo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai. Officials in these places have autonomy to approve projects within certain guidelines, as well as to provide preferential treatment of foreign investors.

In the open coastal cities, incentives are divided between the older industrial area tagged for enterprise renovation, and the new economic and technology development zones now being built on cleared land. These incentives are tied to certain conditions concerning the nature of the technolgoy to be transferred. Treatment is the same for joint ventures, cooperative ventures, and wholly owned subs. The incentives, particularly tax reductions, appear to favor slightly industrial renovation in the older areas over new construction in the zones.

Project approval authority was liberalized for the cities and provinces in 1984. Guangzhou has unlimited authority, provided no cen-

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tral government funds are needed. Shanghai and Tianjin can now approve projects of up to $30 million without going to the central government. Dalian and Liaoning Province have approval levels of $10 million. Beijing and the open cities can approve projects of up to $5 million. Seven inland cities have been given provincial level authority.

Despite the various incentives to foreign investment under the present open door policy, numerous disincentives have created obstacles for current investors as well as potential investors. These investment disincentives include the method of valuation of Chinese imputs, rules on convertibility/repatriation of profits and on return of investment, and the legal framework.

Valuation of Chinese inputs.—Chinese authorities value land, construction materials and other inputs to a joint venture not at cost, but at a higher level equivalent to costs elsewhere in Asia. Labor is billed at artificially high rates to recover government subsidies for housing, food, education, etc. and is valued in foreign exchange. The exchange rate used is also more favorable to the Chinese. The net result is that the Chinese receive the benefit of these maximum valuations, thereby increasing the portion of the joint venture owned by the Chinese, while minimizing the actual costs associated with their contributions to the joint venture.

The argument has been made that the Chinese are hurting themselves by neutralizing advantages that should be working to promote investment in China, i.e., low labor, land, and material costs. Given that the Chinese productivity level is considered to be lower than that of other Asian countries, the per unit cost of production in China is often higher than elsewhere in Asia. These practical aspects of valuation of Chinese inputs are cited by some U.S. firms as reasons for not investing in China.

Convertibility/repatriation of profits.—In general, no vested legal right exists to convert Renminbi (RMB) into dollars. A joint venture is not entitled to a "quota" of free conversion of RMB into foreign exchange. After winding up operations, a joint venture may remit its profits, earnings, and distributed capital if they have followed certain procedures and have a sufficient amount of foreign exchange in their foreign exchange account. For firms with a foreign exchange imbalance, or those who earn RMB through their domestic sales, this requirement of maintaining sufficient foreign exchange presents critical problems. Frequently the foreign partner may have to use its RMB to purchase Chinese goods for export as a means of repatriating profits made in the domestic market. In addition to these barriers, there exists a 10-percent tax on the repatriated profits of any equity joint venture. Conversion of RMB profits into dollars is further hampered by the lack of uniformity and regularity in the administration of these procedures.

Return on investment.—In addition to restrictions on repatriations of profits, the relatively low level of profits offered by the Chinese government—usually in the range of 6–8 percent return on investment—is another disincentive to investment. U.S. companies generally feel that a 15–20 percent return is the minimum acceptable compensation for taking on the problems inherent in investing in the PRC.

Legal framework.—Confidence in the Chinese investment climate has been hampered by the confusion and uncertainty surrounding China's commercial legal system. Although the Chinese have been enacting statutes and regulations governing foreign commercial activities, foreign legal experts and business people agree that these laws do not include many of the standards of Western commercial law. The exclusion of chemical formulas from patent protection under the recently enacted patent law is an example of this discrepancy between Chinese and Western thinking on commercial law.

A second problem encountered by foreigners attempting to understand the Chinese legal system is the lack of information on the administration of the law. Court arbitral decisions concerning business activities are rarely published and the standards for these decisions and enforcement procedures are not widely disseminated. The "public/internal" dichotomy continues to present problems. Policies, procedures laws or regulations considered by the Chinese to be "internal" cannot be released to foreigners. A business can, therefore, find itself in violation of laws of which it had no knowledge. The net effect of such a legal system is that foreign businesses see a lack of certainty in Chinese commercial law which forces them to look twice before investing in the PRC.

F. AGRICULTURAL TRADE

Despite a substantial growth in industrial capacity since 1949, China's economy remains predominantly agricultural. About 80 percent of the population lives and works in rural areas, although only 11 percent of China's land is arable. China is a major producer of grains, cotton, oilseeds, tea, tobacco, and pork. During the first three decades of the People's Republic, agriculture was geared heavily toward serving the needs of industrial development; in addition to producing food for workers, it also provided funds for industrial investment. Agricultural investment was relatively low and production quotas were implemented by collective farming units. Individual farmers had little incentive to increase output and productivity, and agricultural output barely kept pace with population growth.

Since 1978, however, the Chinese leadership has promoted the expansion of agricultural output through household and individual incentives. "Household responsibility" systems have been implemented that give individual households, rather than collective units, greater control over production decisions. The state has raised procurement prices above historical levels and now purchases major crops through contracts with individual farmers, who sell their over-contract production on the open market. To encourage private investment in agriculture, land contracts are being written for 15 years or longer. To consolidate farmland into larger, more efficient units, as well as reduce the oversupply of labor in rural areas, many rural households are being encouraged to give up farming and instead specialize in forestry, aquaculture, animal husbandry, or service occupations, such as machinery repair.

As a result of these policies and generally favorable growing conditions, China reports that agricultural output has increased nearly

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50 percent and rural income has doubled since 1978. Production of many commodities has exceeded planned levels. Formerly a major importer of cotton and corn, China now exports these commodities. Growth in rural income has boosted demand for consumer goods and stimulated commercial activity in the countryside. However, most of the production gains available from higher incentives have already been realized, and future output growth will require higher levels of farm investment and improvement of China's rural marketing infrastructure.

The success of China's agricultural reforms has had significant implications for United States-China agricultural trade. As domestic agricultural production has increased, China's demand for agricultural imports from the United States has correspondingly declined. The value of U.S. agricultural sales to China fell from $1.5 billion in 1982 to $544 million in 1983, a 64 percent decline, then rose slightly to $615 million in 1984.

Another factor affecting the decline in U.S. agricultural sales in 1983 was China's temporary halt of U.S. grain purchases in response to U.S. restrictions on Chinese textile and apparel imports. Although Chinese purchases of U.S. grain resumed after a new textile agreement was signed in August 1983, China fell short of its 1983 and 1984 minimum purchase obligations under our bilateral Long-Term Grain Agreement. The agreement expired at the end of 1984.

Over the long-term, China's grain imports are expected to rise, to offset transportation and storage bottlenecks and to meet a growing demand for feed grains. Short-term prospects for a substantial increase in U.S. agricultural sales to China, however, are poor. China harvested a bumper grain crop in 1984 and prospects of 1985's crop appear good.

In the past, agricultural products dominated our share of this trade, accounting for over half of U.S. exports to China. In recent years, however, China's declining demand for agricultural commodities and growing demand for manufactures and technology have altered the balance of our exports. In 1984, agricultural products accounted for just 20 percent of our total exports to China.

U.S. AGRICULTURAL TRADE WITH CHINA

[Dollar amounts in billions]

	1981	1982	1983	1984
Exports to China:				
Total	$3.6	$2.9	$2.2	$3.0
Agricultural	$2.0	$1.5	$0.5	$0.6
Share agricultural (percent)	56	52	23	20
Imports from China:				
Total	$1.9	$2.3	$2.2	$3.1
Agricultural	$0.3	$0.2	$0.2	$0.2
Share agricultural (percent)	16	9	9	6

Note: Exports—f.a.s., imports—customs value

G. TEXTILE TRADE

Perhaps the most contentious trade issue now facing the United States and China is the issue of U.S. restrictions on textile trade. China is the fourth largest foreign supplier (in both volume and value) of textile and apparel imports in the United States. China currently accounts for about 9 percent of total U.S. textile and apparel imports. Last year, textiles and apparel made from MFA fibers (cotton, wool, and man-made fibers) comprised 33 percent of China's total exports to the United States and were valued at $1.1 billion. Import volume from China grew 25 percent in 1984: textiles grew 50 percent, apparel just 3 percent. Imports in 1985, however, have begun to decline. Comparing the year ending May 1985 with the year ending May 1984, textiles and apparel from China declined 21 percent.

The first U.S.-PRC textile agreement contained limits on six textile product categories. It expired on December 31, 1982. The two sides, after seven rounds of negotiations, finally agreed on a new bilateral textile agreement in August 1983. At the time of signing of this second bilateral textile agreement, there were 33 specific limits covering 76 percent of China's textile trade. As a result of consultation calls to negotiate additional restraints, there are now 44 specific limits and an additional 12 categories with provisional quotas pending bilateral consultations. The restraints cover a total of 79 percent of China's trade, according to year ending May 1985 trade.

China is strongly opposed to the proposed Textile and Apparel Trade Enforcement Act (H.R. 1562) now before Congress. PRC Ambassador Han Xu wrote to members of the Committee on Ways and Means on July 11 to express China's "great concern" about the bill. Han warned that, if enacted, the bill would violate the MFA and our bilateral trade and textile agreements, "strike a severe blow" to China's textile exports, and "severely jeopardize" bilateral trade relations. China estimates that the bill would slash PRC textile and apparel exports to the United States by 56 percent, compared with 1984.

China also has expressed concern about the effect of the revised U.S. textile rules of origin on China's knitwear exports. The revised rules were finalized by the U.S. Customs Service on April 4 of this year, and require sweaters which are assembled in Hong Kong from panels knit in China to be considered of Chinese origin.

Highlights of Meetings With Chinese Officials

A. MEETING WITH VICE PREMIER TIAN JIYUN

The delegation's meeting with Vice Premier Tian Jiyun was both productive and encouraging. Each side gave its view of the obstacles to better development of trade and economic relations, and of prospects for overcoming such obstacles. The opportunity to have frank discussions face-to-face was cited as an important means of promoting cooperation in our bilateral relations.

Chairman Gibbons opened the discussion by commending China for the remarkable progress made thus far in its modernization efforts. Many members of this delegation also participated in the

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Subcommittee on Trade's 1981 trade mission to China, and were greatly impressed by the changes that had occurred since their 1981 visit. These changes were evident not only on paper and in statistics, but in the physical landscape as well.

After explaining the constitutional basis for Congress' power to regulate international trade and commerce, Chairman Gibbons discussed the overall goals of U.S. trade policy. Current U.S. trade policy is shaped by a desire to open up the markets of the world and to facilitate trade on a friendly, reciprocal basis. For many years, the United States focused its attention on European markets. In recent years, however, the importance of the Pacific Rim region has become increasingly apparent.

Abundant opportunities exist for U.S. trade and investment with countries like China. As our economic relationship grows deeper and stronger, we will, of course, encounter certain problems—such as the textile issue which now confronts us. These short-term problems can and will be overcome, however, if they are addressed in the context of our long-term best interests.

Vice Premier Tian noted that the United States is the largest country in the developed world, and that China is the largest country in the developing world. Friendly relations between our two countries is thus of great significance to the world, as well as to each of our countries. China looks at its relationship with the United States from a long-term, strategic point of view. China has been moving to expand trade and investment with the United States and is disturbed to see movement in this direction blocked by any single issue or dispute. The expansion of our two-way trade should not be slowed down, let along blocked.

Access to U.S. goods and services, the Vice Premier stressed, is very important to achieving China's goals for the year 2000, and to realizing the four modernizations. To reach the goals set for the year 2000, China must undertake many construction projects. One such example, the Three Gorges hydrodam project, would offer great potential for U.S. businesses. There has been a great deal of competition among those interested in China's market. China has a strong interest in promoting increased trade with the United States, with its advanced technology and abundant capital, but China is only able to buy from the United States if it has foreign exchange earned through export sales to the United States.

Chairman Gibbons acknowledged the need for trade to flow in both directions. He pointed out, however, that the United States is currently in a very difficult position to accept higher levels of imports, with an overall trade deficit approaching $150 billion in 1985. Greater pressure must be brought to bear upon other developed countries to share the responsiblity of absorbing the developing countries' exports. For example, the United States consumes 58 percent of the developing world's manufactured exports, whereas Japan consumes only 8 percent of its products.

China has great potential for manufacturing and exporting in a range of product sectors. Chairman Gibbons mentioned several of the facilities which this delegation, and the 1981 delegation, had toured and been impressed with. To increase China's exports, and thereby increase its foreign exchange earnings which in turn

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enable it to purchase more foreign products and technology, Chairman Gibbons made several suggestions.

First, actions should be taken to facilitate greater numbers of U.S. tourists and business representatives coming to China. In the United States, Chairman Gibbons explained, purchases are made by private individuals and private businesses—not by government entities. Therefore, China needs to attract greater numbers of Americans to travel to China and purchase Chinese goods in larger quantities. To facilitate this, China needs to build more facilities to accommodate tourists, such as hotels, and businesses, such as office buildings. There should also be easier access to office equipment, and greater control by foreign resident business representatives over locally hired labor. These actions, Chairman Gibbons urged, would immediately enhance China's opportunities to export to the United States.

Chairman Gibbons also suggested that U.S. banks be given greater latitude to operate in China. He stressed that the U.S. Government finances very little of our country's foreign trade. The opportunities for foreign trade, therefore, are heavily reliant on the availability of private institutions willing to finance international commercial transactions. Allowing U.S. banks to operate fully in China, just as Chinese banks are now permitted to operate fully in the United States, would improve the ability of U.S. business to buy Chinese goods.

Finally, Chairman Gibbons commented on the large number of Chinese students in the United States, and suggested that China try to double that number in the near future. Educational exchange is one of the surest, quickest, and cheapest means of transferring technology. Students also make excellent ambassadors and contribute greatly to increase goodwill between countries.

Congressman Frenzel urged that both China and the United States look beyond the simple, bilateral issues between our countries, and consider our relations in a global context. He noted that the message the delegation was receiving here from many Chinese officials—that if a country wants to sell its products to another country, it must also be willing to buy products from that country—was in essence the same message this delegation had just delivered to Japanese officials. Congressman Frenzel promised to point out this "coincidence" to his colleagues in Washington.

On China's part, Congressman Frenzel urged that China become more active in international organizations, and in particular, become a full member of the GATT. As China's economy develops and becomes more involved in international trade and finance, the need for, and benefits of, participation in such international organizations become more pronounced.

With respect to current tensions in the area of textile trade, Congressman Frenzel stressed the importance of the talks now underway to negotiate an extension of the MultiFiber Arrangement (MFA). No matter what legislative action the United States takes in coming months, it would be helpful to China's interest if progress were made soon on the MFA renegotiation. Early progress on a new MFA, Congressman Frenzel urged, could have a significant effect on the final outcome of the pending textile quota legislation.

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Finally, Congressman Frenzel commented on the remarkable progress that China has made in its modernization program, and our delight that the United States has been able to be a part of this growth. He stated our desire that each country continue to contribute to the other's growth and thus realize our respective goals for the year 2000.

Vice Premier Tian responded favorably to several of the delegation's suggestions, and specifically promised to give serious consideration to increased access for U.S. banks in China. He expressed concern, however, over the bilateral trade balance. An imbalance in bilateral trade is normal for periods of one or two years, stated the Vice Premier. If an imbalance is sustained for a long term, on the other hand, it seriously hinders the expansion of trade for those two countries. He warned that this is the situation facing the United States and China today. According to Chinese government statistics, China has been running a trade deficit in favor of the United States for a number of years. (According to U.S. Government statistics, however, the trade deficit has been running in favor of China.) Vice Premier Tian warned that it is necessary for both sides to pursue opportunities to increase imports from each other.

The Vice Premier expressed confidence that the friendship as well as the economic relationship between our two countries would continue to grow and gain in strength. The economic restructuring within China is proceeding smoothly and is expected to continue on course. The growth and development of China's economy will bring benefits to the United States as well. There is no need, therefore, for warring between our two countries. The Chinese remain deeply committed to achieving their economic goals, and will continue steadily towards these targets.

B. MEETING WITH MOFERT VICE MINISTER WEI YUMIN

Chairman Gibbons opened the meeting with Vice Minister Wei of the Ministry of Foreign Economic Relations and Trade (MOFERT) with an explanation of the constitutional basis for Congress' role in formulating U.S. trade policy. Congressman Jones began his remarks by commenting on the great progress that China has made over the past 5 or 6 years. Many members of this delegation had participated in trade missions to China during the period 1979–81, and have been very impressed with the progress that is evident with each return visit. One thing that has never changed, however, is the warm hospitality of the Chinese people that contributes to the friendship between our two nations.

Both China and the United States, Congressman Jones noted, share a mutual desire for increased commercial cooperation. The recent growth in our trade and investment relationship reflects this strong desire. As in any growing relationship, however, there are potential sources of friction. One source of friction now before us is the textile quota legislation pending in the U.S. Congress. Congressman Jones stressed that he, and certain other members of the delegation, do not support this legislation. Nevertheless, it has sufficient support in the Congress as a whole that it will most likely pass the Congress sometime this fall. Congressman Jones

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stated that he realized that enactment of this legislation could have a serious effect on U.S. relations with countries such as China. The Chinese must realize, however, that this legislation represents a major political problem in the United States right now.

Congressman Jones urged the Chinese to pursue development of their energy resources, particularly petroleum products, as an important source of export growth. Petroleum products would provide China with a valuable means of earning foreign exchange, as well as contribute greatly to Asian energy security.

Congressman Jones also urged China to take concrete steps to improve the business climate for U.S. businesses interested in doing business in China. Four suggestions were made by Congressman Jones in this regard. First, full service status should be provided to U.S. banks in China, comparable to the status accorded China's banks in the United States. Second, China should provide for local employer practices comparable to those provided in other countries. This means allowing foreign businesses resident in China to have greater control over the hiring and firing of local labor, as well as greater control over the wage and reward system. Third, to alleviate the burdens of excessive rental costs for office and residential space, construct trade centers, which would combine in one location the various facilities and services which U.S. businesses need. Fourth, an equitable tax system must be established which is both fair—especially to service-related industries—and predictable.

Reciprocity, Congressman Jones stressed, is the key to improved relations between the United States and China. U.S. businesses should face the same conditions in the Chinese market as Chinese businesses enjoy in the U.S. market. Elimination of barriers and improvements in market access would lead to great expansion of trade, which is in the best interests of both China and the United States.

Vice Minister Wei responded that, although there are some difficulties, generally United States-China trade relations are quite good. He commented on the current bilateral trade imbalance, and the cumulative trade deficit on the Chinese side over a 12-year period. He argued that, if we want our bilateral trade to continue to grow in the future, then this imbalance must gradually be narrowed.

The most fundamental problem in our trade relations, according to Vice Minister Wei, is how the United States can, and will, expand its imports from China. Import expansion controls export expansion; an increase in U.S. imports from China means that U.S. exports to China can increase. In this regard, Vice Minister Wei criticized the textile quota bill now pending in Congress. On the one hand, the United States is urging China to expand our trade, but on the other hand the United States, through the Jenkins bill, is trying to restrict China's textile exports.

Vice Minister Wei pointed to the textile bill as the main obstacle to United States-China trade. If passed, the legislation would dramatically affect our trade relations; China would be forced to reduce its imports from the United States, warned the Vice Minister. China's textile exports are relatively small in volume and as a proportion of total U.S. textile imports. Yet China depends heavily

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on textile exports for its export earnings. Passage of the Jenkins bill would inevitably affect trade between the United States and China in both directions. The Vice Minister reiterated China's position that the legislation violates GATT, the MFA, and the U.S.-PRC bilateral trade agreement. He urged that the two countries work toward eliminating obstacles to trade, not creating them.

On the subject of foreign investment, Vice Minister Wei appreciated the high levels of interest by U.S. businesses in investing in China, and participating in joint ventures and cooperative ventures. China's opening to foreign trade and investment is only 6 years old, he noted. Many laws and regulations are now being developed in the commercial area on an ongoing basis. Within the next few years China hopes to have completed its legal development process. The Vice Minister also noted that China and the United States are in the process of negotiating a bilateral investment treaty. Although agreement has not yet been reached in these negotiations, he expressed hope that an agreement would be reached and signed soon.

Vice Minister Wei agreed with Congressman Jones that overall the future was very bright for economic relations between our two countries, but that we still have many obstacles to overcome. He urged that both sides work hard to remove these obstacles.

One of the targets which China has set for itself for the year 2000 is to expand its total foreign trade to $160–$200 billion. This would represent a quadrupling of its current level of foreign trade of approximately $50 billion. Vice Minister Wei urged the United States to work with China towards achieving that target, and sharing in the increased trade.

Congressman Schulze remarked that the United States-China trade relationship is still in a stage of infancy and that it is important to nurture this relationship so that it grows in a healthy direction. If one side of the relationship grows too rapidly, and out of proportion to the other side, then an imbalance will result and problems will arise. Congressman Schulze warned that such an imbalance has resulted in certain sectors, such as mushrooms and textiles, in which China's exports to the United States grew rapidly over a relatively short period of time. Both sides naturally have an interest in controlling economic events which threaten our domestic employment. Just as the Chinese are concerned about maintaining employment for all its workers, so too the United States is concerned about maintaining its employment.

Most other countries regulate their imports to a far greater degree than the United States does, noted Congressman Schulze. The United States would like to keep its market open, to the benefit of foreign exporters, but China must realize that large and rapid surges into the U.S. market lead to market disruptions which lead to political pressures to protect domestic employment. Therefore, to avoid unnecessary protectionist actions, China must maintain reciprocity and balance in its trade relationship with the United States. We must work together to see to it that, through steady and balanced growth, the infant relationship grows into a mature and healthy adult relationship.

Congressman Campbell reiterated the view that surges which create market disruptions will lead to an unhealthy political envi-

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ronment. He cited Chinese exports of printcloth to the United States as one example. Congressman Campbell urged the Chinese to diversify their export base as much as possible, both among manufacturing sectors and among individual product lines within any given sector.

Congressman Frenzel urged that China work toward an early resolution of negotiations to extend the MFA. As an opponent of the Jenkins bill, he stressed the important effect which progress on MFA renegotiation could have in preventing the legislation from becoming law. If MFA renegotiation does not proceed quickly, on the hand, this fact could hasten the bill's passage through the Congress.

Congressman Thomas commented that he understands the desire to have a generally symmetrical bilateral trade relationship, but warned against spending too much time and energy trying to measure and balance each "half" of the bilateral relationship. For one thing, he pointed out, it ignores the effects which one country's trade with third country markets can have on the second country's trade. For example, as China's corn exports to Japan increased, U.S. corn exports to Japan decreased. Such instances will be a natural result of China's growing involvement with other nations. Congressman Thomas urged that we focus on the positive trends in trade growth rather than be overly concerned with slight pluses or minuses on a strict bilateral basis.

Vice Minister Wei supported the position that U.S.-China trade should be viewed in terms of its long-term prospects and potential for growth. He reaffirmed China's desire to develop two-way trade. He warned again, however, that if China's access to the U.S. textile market is cut back, its foreign exchange will be reduced and it will have to reduce its purchases of U.S. exports. The Vice Minister urged that the United States not look at its trade problems simply from a sectoral perspective.

Finally, Vice Minister Wei closed the meeting with a "joke": If China had the manufacturing ability of Japan, China would not be facing the textile problem it faces today.

C. MEETING WITH NATIONAL PEOPLE'S CONGRESS VICE CHAIRMAN WANG RENZHONG

On August 9, the delegation met with Wang Renzhong, Vice Chairman of the Standing Committee of the National People's Congress (NPC) and Chairman of the NPC Financial and Economic Committee. Vice Chairman Wang discussed some of the changes that China has been undergoing in its modernization process. He noted that China's rate of economic growth was very high, but that due to its immense population, it would still take many years for China to reach an advanced stage of economic development.

China's total foreign (two-way) trade now is between $50–$60 billion. Many of the changes that have occurred within China's domestic economy have had important implications for foreign trade. For example, the rapid progress in China's agricultural reform efforts has changed China from being a large grain importer to having a temporary surplus in both grain and cotton, and thus decreasing its purchases of grain and cotton from foreign sources. Mr.

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Wang noted, however, that China's agricultural goals include not only self-sufficiency in food supplies, but also continual improvement in the food diet. This latter goal, he remarked, will continue to generate demand for feedgrains.

Vice Chairman Wang noted that, on the export side, if China is unable to export its products, it will not have the necessary foreign currency it needs to purchase foreign imports. He alluded to the obstacle posed by the pending textile quota legislation. He urged that both China and the United States approach cooperation between our two countries from a long term point of view. Great potential for expanded cooperation in the long term, for example, exists in technological fields such as offshore oil development.

The Seventh Five-Year Plan, Mr. Wang stated, establishes two priorities which offer particular prospects for increased United States-Chinese commercial cooperation. These priorities are development of China's energy sector, and development of China's transportation sector. Both of these sectors are currently very weak and could benefit from U.S. support and participation. Another area where U.S. commercial expertise could aid Chinese development is in the technical transformation of its older, existing enterprises.

Chairman Gibbons described some of the political and economic factors which contribute to the current situation in the United States concerning textile imports, as background to understanding how the Jenkins bill came about. He explained the geographic dispersion of the industry throughout the United States, the number of manufacturing jobs that are dependent on the industry, the importance of the industry particularly to women and minorities, and the tremendous dislocations that have been generated by plant closings in certain regions of the country where the industry is concentrated, particularly in rural areas. All these factors, in conjunction with the highly visible problem of the overall U.S. trade deficit, have created a great deal of political pressure on U.S. legislators to respond to the threat of continuing losses of U.S. jobs. The United States faces an overall trade deficit today of nearly $150 billion. Each $1 billion in the trade deficit, Chairman Gibbons stated, costs the United States 25,000 jobs. It is important to understand the larger context of political pressures being brought to bear on the U.S. Congress in the trade area, in order to understand how and why a bill such as the textile quota bill can amass such support in Washington.

Chairman Gibbons made two suggestions to alleviate the tensions in the textile area. First, he suggested that negotiations to renegotiate the MFA be accelerated. Early progress on a new muitilateral solution to the textile problem could significantly reduce the pressure for unilateral action by the Congress. Second, he urged that China be careful not to allow surges in any particular product exported to the United States. Diversification among product lines and steady, not sudden, growth in export trade will avoid the market disruptions that intensify political pressure for protection.

Despite differences of opinion on the textile legislation, however, Chairman Gibbons assured Vice Chairman Wang that members of the U.S. Congress were firmly behind the expansion of trade relations with China over the long term. The textile quota bill is a short-term obstacle that will hopefully be overcome soon. Chair-

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man Gibbons urged that both sides work optimistically toward increased cooperation and expanded trade to their mutual long term benefit.

D. WORKING SESSION AT THE NATIONAL PEOPLE'S CONGRESS

The delegation also participated in a working session with representatives of the National People's Congress and various ministries handling affairs relating to international trade and investment. The members of the Chinese delegation were as follows:

Mr. Ye Lin, Member of the NPC Standing Committee and Vice Chairman of the NPC Financial and Economic Committee.

Mr. Zhang Zhen, Member of the NPC Standing Committee and member of the NPC Financial and Economic Committee.

Mr. Fan Kang, Director of the Office of the NPC Financial and Economic Committee.

Mr. Liu Zepu, Director of the Third Department for Regional Affairs, Ministry of Foreign Economic Relations and Trade.

Mr. Shen Jueren, Director of the Department of Foreign Trade Administration, Ministry of Foreign Economic Relations and Trade.

Mr. Chen Zhesheng, Deputy Director of the Foreign Trade Administration, Ministry of Foreign Economic Relations and Trade.

Mr. Zhao Xixin, Counsellor of the Department of American and Oceanian Affairs, Ministry of Foreign Affairs.

Mr. Liu Xuehong, Deputy Director of the Foreign Affairs Department, Ministry of Nuclear Industry.

Mr. Fu Zhida, Deputy Director of the International Co-operation Department, Ministry of Petroleum.

Mr. Zhao Chuanshao, Director of the Foreign Affairs Department, Ministry of Water Resources and Electric Power.

Mr. Yin Zuojin, Deputy Director of the Foreign Affairs Department, General Office of the NPC Standing Committee.

Mr. Ye opened the working session with some remarks about the status of United States-China economic relations. Trade and technological cooperation between the United States and China has increased rapidly during recent years. The United States is now the second largest exporter of technology and manufactured goods to China. Twelve U.S. oil companies are engaged in exploration and development of China's energy resources. Occidental Petroleum recently signed a major contract with the Chinese Government for the development of the world's largest open-pit coal mine. A bilateral agreement on the peaceful utilization of nuclear power was recently signed by China and the United States.

In addition to these accomplishments, there is great potential for increased cooperation in the future. Offshore oil development is now in its second round of bidding. Onshore oil development in ten southern provinces was recently openly to foreign drilling activities. Opportunities also exist for cooperative activities with U.S. companies in the development of China's hydropower capabilities. U.S. firms are very competitive in energy technology and prospects for increased cooperation with China in many fields are very bright.

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Mr. Ye expressed regret, however, at the development of "twists and turns"—of certain difficulties and obstacles to expanded cooperation. He cited four specific areas of difficulty. The first is the bilateral trade imbalance which he claimed runs in the United States' favor and has been sustained for many years. Mr. Ye stated that China hopes that this gap will be reduced gradually.

The second specific difficulty cited was the textile quota legislation pending in Congress. If enacted, Mr. Ye warned, the credibility of the United States as a signatory of international agreements will be weakened. Furthermore, reduction of China's textile exports to the United States will be to the detriment of the interests of U.S. consumers. Finally, Mr. Ye stated, reduction of China's exports will inevitably affect China's ability to pay for U.S. imports as well as make foreign loan payments. Such a state of affairs does not serve the long-term interests of either the United States or China. Mr. Ye expressed uneasiness over the possibility that the textile bill signals a trend toward further U.S. protectionism.

Third, Mr. Ye criticized U.S. export control procedures which he described as too complicated and time-consuming, and a burden on technology transfer. Fourth, he mentioned that certain bills before the U.S. Congress subjected China to "unfair treatment".

Mr. Ye expressed his appreciation of the many Members of the U.S. Congress who support friendly relations between China and the United States, and who have made positive efforts to overcoming obstacles to bilateral trade and economic cooperation. He expressed hope that members of this Congressional delegation, as his committee's counterpart having jurisdiction over trade legislation, would increase their efforts to overcome these obstacles.

Chairman Gibbons reaffirmed the interest which he shared with other Members of Congress to seek closer relations between our two countries, and to seek pragmatic resolutions to our problems. He described the constitutional basis for the power of Congress to regulate international trade, and then introduced Congressmen Anthony and Campbell as the delegation's spokespersons.

Congressman Anthony commended China for the remarkable progress that has been made since his visit there in 1981. After reviewing certain statistics which reflect the changes both within China and in its foreign trade between 1981 and the present, Congressman Anthony responded directly to two of the "twists and turns" addressed by Mr. Ye.

With regard to the alleged trade deficit, Congressman Anthony pointed out that official U.S. Government statistics indicated that the United States-China trade was roughly in balance. In fact, U.S. Government statistics indicate that there is a slight trade deficit, but it is in China's favor, *not* the United States' favor. The discrepancy between Chinese statistics and the U.S. statistics is based on a difference of methodology that involves the counting of shipments through Hong Kong. Chinese exports shipped through Hong Kong to the United States are counted by the U.S. Government as Chinese exports to the United States, whereas China's government does not count such shipments in the United States-China bilateral trade account. This methodological difference is a source of friction which, although the subject of numerous bilateral discussions, remains yet to be resolved.

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With regard to the pending textile quota legislation, Congressman Anthony stated that it is very important for the Chinese to understand the intense political pressures on U.S. legislators to protect U.S. jobs and factories. Over the past several years, hundreds of thousands of jobs have been lost in the U.S. textile industry. In Congressman Anthony's own district, over 400 jobs were lost in the past 90 days alone due to textile imports. He deferred to Congressman Campbell for further elaboration on the textile issue.

Congressman Anthony then identified four areas of difficulty to U.S. business interests. First, business conditions in China for foreign business representatives are in need of considerable improvement. There is inadequate office space, residential space, business support services, and transportation network. Second, the lack of reciprocity in the banking industry complicates banking and commercial relations between our two countries. Third, the control by the Foreign Enterprise Service Organization over the hiring of local Chinese nationals creates difficulties for U.S. companies in maintaining an efficient, productive work force. Fourth, U.S. businesses face a considerable burden in the form of high taxes imposed on business equipment imported for use in their own offices.

The Chinese delegation then responded to Congressman Anthony's remarks. With regard to the problem of statistical methodology, China considers Hong Kong an independent trading partner. Any Chinese exports to Hong Kong are counted simply as exports to Hong Kong, no matter if they are subsequently shipped to another country. The decision of Hong Kong businesses to re-export goods originating in China was, moreover, beyond the ability of the Chinese to control or monitor. Even if such trade is discounted, however, the MOFERT representative claimed that the United States-China trade balance was still unfavorable on China's side.

Regarding the textile legislation, it was pointed out that China's exports of textiles and apparel constitute a very small percentage of the total U.S. market, yet passage of the textile bill would result in the loss of tens of thousands of Chinese textile jobs.

On the problems of business conditions and local hiring regulation, the MOFERT representative acknowledged these concerns and assured that progress was being made in resolving the problems. Many of the office buildings now under construction in Beijing are for the benefit of foreign businesses. The poor transportation network is inconvenient for both Chinese and foreign commercial interests, and is being addressed. The banking issue has already been raised in bilateral discussions. It was pointed out that foreign banks can open branch offices in the special economic zones, subject to approval by the Chinese government. Outside special economic zones, Chinese law does not provide for foreign branches but many representative offices of foreign banks are located in Beijing.

Congressman Campbell described the background of economic events which has generated such intense political pressure in the United States on the issue of textile trade. The global trade deficit in the United States this year is expected to reach $150 billion; textiles and apparel trade accounts for almost 14 percent of this deficit. Although China accounts for only 1 percent of U.S. imports of all products, in the textile sector China accounts for 10 percent of

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U.S. imports. Congressman Campbell cited numerous statistics on the growth of textile imports in the United States overall and from China during the period 1980 to 1984. He further noted that China's chemical fiber production increased by 34 percent; at the same time, U.S. exports of synthetic fiber to China decreased from $327 million in 1981 to $95 million in 1984. On top of that, China recently announced an increase of 40 percent in the import duty on synthetic fiber imports.

The textile and apparel industries, Congressman Campbell noted, are the largest manufacturing employer in the United States. Dislocations in this sector generating loss of jobs create serious political problems. He stressed that the issue is no longer one of pure economics; that in the United States, it is now fundamentally a question of politics. The United States will continue, of course, to seek mutually beneficial solutions to the textile problem, but China must understand the political factors in the United States which are such an integral part of the current problem.

Congressman Frenzel noted that, although Congressman Campbell represents what is probably a majority view in the Congress, he (Mr. Frenzel) represents a different view which, although a minority view, is nevertheless a strong minority view. An open trading system, Congressman Frenzel stressed, is important for all countries in the world. When we protect any industry too much, we deny the benefits of our collective skills to all people. Congressman Frenzel reminded the Chinese delegation that a delegation of members of the Committee on Ways and Means first visited China 6 or 7 years ago and subsequently initiated the legislative effort to grant MFN treatment to China. This delegation remains committed to improving trade relations between our two countries, and resolving whatever problems may arise. Congressman Frenzel urged that China continue its involvement in the world trading community, and suggested that China resume its membership in the GATT to enhance that role.

Chairman Gibbons urged that our bilateral trade problems also be considered in a global context. In this respect, although the United States does have problems with China, they are relatively few compared to the problems we have with many other trading partners. Chairman Gibbons remarked on the industriousness of the many Chinese students now studying in U.S. schools and universities. Students make excellent "ambassadors" and contribute tremendously to international relations. He encouraged greater educational exchange in both directions.

E. WORKING SESSION WITH REPRESENTATIVES OF THE GUANGDONG PROVINCIAL GOVERNMENT

On August 22, the delegation participated in a working session with officials of the Guangdong Provincial Government. Members of the Chinese delegation included the following:

Mr. Zheng Dingshi, Vice Chairman, Standing Committee, Guangdong People's Congress (PCGD).

Mr. He Bi, Deputy Secretary General, PCGD.

Mr. He Xian, President, Planning Commission, Guangdong People's Government (GDPG).

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Mr. Lin Ke, Vice Chairman, Committee on Finance and Economy, PCGD.

Mr. Zhang Qingping, Director, Office of Foreign Affairs, GDPG.

Mr. Yang Mai, Vice President, Economy Commission, GDPG.

Mr. Feng Xueyan, Deputy Director, Commission of External Economic Affairs and Foreign Trade, GDPG.

Mr. Fan Kang, Director, General Office, Committee of Finance and Economy, National People's Congress (NPC).

After introductory remarks by Mr. Zheng and Mr. He Bi, Mr. He Xian briefed the delegation on the economic development of Guangdong Province, with particular emphasis on the role of foreign trade and investment in such development. The full text prepared by the People's Government of Guangdong Province, on which Mr. Xian's remarks were based, is reprinted in the appendix.

Guangdong province is located in the southernmost part of China, and borders the South China Sea. The province has a population of 61 million people, of which 3.15 million reside in its capital, Guangzhou. Guangdong Province, with its easy access by water, land, or air and its location adjacent to Hong Kong and Macau, has long been considered a gateway of trade with China. The biannual Chinese Export Commodities in Guangzhou was first held in 1957, and now is attended by 20,000 businessmen from 100 countries and regions.

In part due to its convenient location, Guangdong province has three of the four special economic zones (SEZ's)—Shenzhen, Zhuhai and Shantou—and two of the fourteen open coastal cities—Guangzhou and Zhanjiang—as well as the Hainan Island and Pearl River Delta Economic Zone, which also enjoy special policies for foreign trade and investment. The special economic measures to be implemented in these regions as part of the open policy are designed to offer greater opportunities for foreign investment than in other regions, to adopt more flexible and efficient measures to invigorate the domestic economy, and to authorize greater autonomy to enterprises and administrations at various levels in the provinces.

Thus far, the special economic measures are yielding positive results. Both agricultural and indistrial production in Guangdong Province have increased at rates higher than the national averages. Employment rose 2.54 million in the five years from 1979 to 1984, while real wages increased 36.4 percent. Exports from the province increased 1.4 times the levels in 1978. Tourism increased such that 11.98 million tourists visited Guangdong Province in 1984; there are now 9 times as many hotel beds as five years ago.

The number of signed contracts involving foreign investment totalled 50,000 by the end of 1984. The total amount of contracted capital came to $7 billion, of which $1.9 billion has already been put to use. Priority is now being given to energy, transportation and communication projects. Guangdong Province has plans which include construction of a nuclear plant, a series of thermal power plants, several hydro power plants, expanded railway, super highway projects, harbor expansion, development of water transportation systems, upgraded telecommunications systems, and expansion of aviation services. In the area of light industry, technical transformation is being stressed to develop high grade, top quality prod-

ucts. Development of energy resources offers additional opportunities for international cooperation.

A fundamental component of the special economic policies designed to attract foreign investment is preferential tax treatment. In the SEZ's, Hainan Island, and Economic-Technical Development Zones of Guangzhou and Zhanjiang, joint ventures, co-production ventures, and wholly foreign owned corporations are subject to a corporate income tax of only 15 percent. Their repatriated profits, furthermore, are exempt from remittance tax. Joint ventures with over ten years of successive operations may also be exempt from income tax in the first and second profit-making years, and taxation at half the rate in the third, fourth and fifth years. Certain enterprises engaged in low-profit operations such as farming and forestry, or established in remote and economically underdeveloped areas may, in addition, be eligible for further reductions in income tax levied, following the expiration of exemptions and reductions mentioned above.

In addition to preferential income tax treatment, joint ventures and co-production ventures enjoy duty-free treatment for imports of equipment and materials necessary for the establishment of the enterprise. Also, the proportion of the enterprise's production which is exported is also exempt from industrial-commercial tax.

All foreign enterprises are subject to certain export performance requirements to "keep a balanced account of foreign exchange". Certain enterprises manufacturing high-technology products which are needed in the Chinese market may, however, be granted more liberal authority to sell a larger proportion of its product in the domestic market.

Finally, Guangdong province offers foreign investors flexibility in the form of investment (joint venture, co-production venture, direct investment, supply contract, assembly operation, etc.) as well as the term of life of the cooperation. Within the framework of existing laws and regulations, the enterprise's management personnel are provided the greatest degree of autonomy in managing the corporate affairs of their enterprise.

Congressman Anthony commented on the progress which China has made since implementation of its open policy. The future holds substantial opportunities for increased trade between the United States and the Pacific Rim countries; Congressman Anthony asked how the delegation could facilitate increased trade between Guangdong and the United States. In addition to inquiring of the Chinese delegation how to encourage U.S. businesses to buy and invest in Guangdong, Mr. Anthony described to them the political climate in the United States generated by loss of jobs and the huge trade deficit, that has made trade such a sensitive issue.

Congressman Thomas discussed the mutual benefits of trade when it is conducted with mutual respect, in the long-term best interests of both sides. With respect to the special economic policies of Guangdong Province, Congressman Thomas raised the issues of repatriation of profits, and worker incentive through increases in wages. The Chinese delegation explained that the proportion of any wage increase in a joint venture situation that would be actually passed on to the workers, would be determined by the joint venture's board of directors. Ordinarily, a certain amount of the in-

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crease (up to 25 percent) would not be passed on to the worker, but be set aside for purposes of insurance, welfare benefits, etc.

F. MEETING WITH SHENZHEN VICE MAYOR WU

On August 23, Shenzhen's Vice Mayor Wu met with the delegation and gave a briefing on the Shenzhen Special Economic Zone (SEZ). The Shenzhen SEZ was established in 1980 and occupies 327.5 square kilometers. It runs 49 kilometers from east to west, and 7 kilometers from south to north. It is divided into three geographic sections: east, central, and west Shenzhen.

During the relatively short life span of the SEZ, it has already undergone a lot of change. In 1980 the population of Shenzhen was 40,000; it is now approximately 400,000. The Vice Mayor estimated that by the year 2000, the population would probably reach 800,000. At the end of 1984 the GNP of Shenzhen was 1.9 billion renminbi (Chinese currency).

The current focus of the Shenzhen municipal government is on development of its infrastructure in order to create a favorable climate for investment. Between 1980 and 1984 more than 100 kilometers of land have been built up in the downtown commercial area. Development efforts have included drainage and sewer systems, water and power supply, telecommunications systems, as well as schools, parks, and other public facilities. As of July 1985, the investment in infrastructure development has totaled almost 5 billion yuan (Chinese currency).

A primary purpose of the SEZs is, of course, to attract foreign investment. In the Shenzhen SEZ, commercial relations have been established with numerous foreign investors, particularly in the high technology area, including investors from the United States, Japan, the United Kingdom, Sweden, Switzerland, Italy, Germany, Hong Kong, and Macau. Foreign investors, have promised a total investment of $3 billion. Of this $3 billion, $800 million is already in place.

With regard to the ultimate goals or aims of the Shenzhen SEZ, Vice Mayor Wu sees Shenzhen as offering China four windows to the outside world. First is the window of acquiring advanced technology. Second is the window for acquiring knowledge. Third is the window for acquiring management experience. Fourth is the window for showing the outside world how China will be proceeding in its open door policies.

A lot of improvement remains for the SEZs to be a success; there are still many shortcomings, Vice Mayor Wu stated. She welcomed all friends, both overseas and within China, to join in their efforts to increase economic cooperation in all areas of technology, trade, and investment. It is her hope that Shenzhen become a pioneer, a model for the successful functioning of the four windows to China.

Chairman Gibbons applauded the rapid progress of the Shenzhen SEZ. The impressive commercial development becomes even more noticeable when compared to the countryside which surrounds the SEZ. Chairman Gibbons commented on the excellent location of the SEZ, with a seaport on one side, and countryside on another. He pointed out that Vice Mayor Wu, who had just recently acquired her position, had become Vice Mayor at a critical stage in

Shenzhen's development, in transition from the early planning stage to the implementation or action stage.

Chairman Gibbons asked the Vice Mayor what principal industries Shenzhen expects to attract there over the next few years. Vice Mayor Wu responded that, since Shenzhen is still a very small town, its industrial base cannot be as diverse or comprehensive as those in large cities. As its economy develops and becomes more export-oriented, it will have more and more contact with commercial interests abroad, which will in turn enable it to broaden its economic base. For the moment, however, it is focusing on attracting industries of benefit to development of its internal economy. For example, China has a basic electronics industry; the emphasis in Shenzhen is to attract companies which will contribute to upgrading the electronics industry—to facilitating a shift from simple assembly operations to higher technology manufacturing operations, and improvements in product quality.

One factor which currently acts as a constraint on the types of companies and industries which Shenzhen can attract, however, is the lack of certain infrastructure. Due to a shortage of power supply in Shenzhen, for example, industries which require lots of power are not being encouraged to locate in the SEZ. Similarly, the shortage of adequate transportation facilities also affects the selection of which industries Shenzhen tries to seek out.

G. MEETINGS WITH REPRESENTATIVES OF U.S. BUSINESSES IN CHINA

The delegation met in each city with various representatives of U.S. businesses doing business in China. In Beijing, the delegation had a working breakfast with members of the National Council for U.S.-China Trade and the American Chamber of Commerce in China. U.S. business interests represented the legal community, banking industry, computer industry, and the oil industry, among others. In Guangzhou, the delegation had a breakfast meeting with representatives of U.S. companies doing business in that area of South China, ranging from oil companies (Chevron, Esso, Philips, Occidental, Texaco), to food products companies (Beatrice, Heinz, Pepsicola), to hotel services (East Lake Hotel), to a footwear manufacturer (Nike). In Shenzhen the delegation visited the offices of the China American International Engineering Company, a joint venture between Bechtel Corporation and the Chinese Ministry of Coal.

At each meeting, the delegation asked about market access problems and the conditions of doing business in China—costs and availability of office space and equipment and residential facilities, availability and productivity of local labor, predictability and consistency of the legal environment, and discriminatory tax treatment. Generally, the U.S. business representatives stated that the costs of doing business in China for foreigners are very high—both compared to conditions in other Asian countries and compared to China's domestic enterprises. Progress with respect to business conditions, although slow, is being made as more hotels and office buildings are being constructed, and China's interest in, and need for, more foreign trade and investment grows stronger.

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Lack of reciprocity in business conditions is a common basis for resentment on the part of U.S. businesses in China—that their Chinese counterparts enjoy much better business conditions in the U.S. market than they face in the Chinese market. One example cited was the ability of the Bank of China to engaged in full commercial operations through its operating branch in New York, whereas U.S. banks in China have very limited commercial authority and are not permitted to have full branches, only representative offices.

Another problem commonly cited is the lack of predictability and consistency of the legal environment. Laws and regulations are often changed with little, if any notice. Public availability of such legal decisions is often limited and consequently U.S. businesses constantly face the risk that they may be violating a new law or regulation, because they are unaware of it. Moreover, if one inquiries about a certain legal requirement, one will often receive different answers from different sources, leading to even greater confusion about how to conduct one's business. Changes in the tax laws are particularly vulnerable to this criticism.

Other difficulties facing U.S. businesses in China were outlined for the delegation in a memorandum from the American Chamber of Commerce in China and the National Council for U.S.-China Trade, which is reprinted in the appendix.

In Shenzhen the delegation had the opportunity to learn about the experiences and expectations of a relatively new joint venture which may be considered a pioneer in its field. The China American International Engineering Company (CAIEC) was established last year as an engineering joint venture between Bechtel (50 percent ownership) and China's Ministry of Coal (50 percent ownership). It is the first joint venture to be authorized by the State Council to engage in business across the board with any Ministry on any type of project (with the sole exception of nuclear power projects). As such, it is the first joint venture of its kind in China.

The joint venture also brings some revolutionary engineering management concepts to China. Traditionally, each of the three major phases of an engineering project—engineering, procurement, construction—have been handled in China by independent work units in consecutive stages after each prior stage is completed. Bechtel introduced a new management system which will speed up the process, resulting in completion of any single project in two-thirds the time required under the typical Chinese system.

Under the new Bechtel system, the procurement phase begins shortly after the engineering phase had begun (rather than after it is completed) and the construction phase subsequently begins shortly after the procurement phase has begun and before the engineering phase has been completed. A diagram depicting the differences between the two approaches was provided.

Typical Chinese System:

¶Engineering¶ ¶Procurement¶ ¶Construction¶

CAIEC System:

¶Engineering¶

¶Procurement¶

¶Construction¶

The CAIEC joint venture has an initial capitalization of $3 million. The CAIEC representatives explained that this figure was on the low side because the Chinese partners had provided much in the form of physical facilities and accommodations. In June of this year, CAIEC moved into newly constructed office space, and now occupies four floors of the new building equipped with brand new office furniture and equipment. Certain office equipment and chairs were imported, the remaining office furniture was made in Shenzhen.

The Chinese partners have also provided the joint venture with very comfortable residential accommodations. A complex of 14 townhouses equipped with General Electric appliances is now available to CAIEC employees. Additional apartments have been provided to accommodate remaining expatriate and Chinese staff.

The objective of the joint venture is to perform all of its engineering work in China—CAIEC representatives stressed the importance of performing *all* of its functions *in* China. That means that all personnel required for any particular project are brought to China to perform those services; no work is sent out to be performed by Bechtel personnel in the United States or by any independent subcontractor. Similarly all training of personnel is done in China.

CAIEC is staffed to a large extent separately by the Chinese and American partners. Each side provides for payment of its own personnel. The wage rates for each side are negotiated, and then the joint venture pays the agreed amounts to the U.S. partner (Bechtel) and the Chinese partner (Ministry of Coal). Each partner then pays its own employees. With respect to the selection of the joint venture's management personnel, each partner presents a pool of individuals it deems qualified and appropriate, and then the other partner gives final approval to individuals from within the pool.

Shenzhen was chosen as the location of the joint venture for several reasons. It is one of the first and most developed of the special economic zones. In addition to the tax incentives, it offers proximity to Hong Kong with all of its resources. Availability of office space, residential facilities, and office equipment and furniture were other factors. One major problem with the location is the inadequacy of power supply. CAIEC representatives explained that power is supplied from Hong Kong directly to Guangzhou, and then passed on from Guangzhou to Shenzhen through a grid system. The inadequacy of the power supply system may not be resolved for another eight years or so, after a nuclear power plant is on line. CAIEC representatives noted, however, that the power problem is of even greater consequence to manufacturing companies than it is to service industries.

H. TEXTILE PLANT TOURS

In Beijing, Chairman Gibbons and Congressman Campbell visited Cotton Mill No. 2, the largest cotton textile mill in China. Established in 1954, it was one of the first Chinese mills to be equipped with all Chinese equipment. In 1981, much of the original spinning equipment was replaced with state-of-the-art equipment imported from West Germany, Japan, and Switzerland. The mill has a total

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of 160,000 spindles and 2,850 looms. It produces 2,600 tons of yarn annually, and 72 million meters of cloth. Approximately 45 percent of the production is consumed internally (e.g., for the production of finished products). Half of the plant's production is 100-percent cotton; the other half is cotton/polyester blends. Of the grey goods exported from this particular mill, most of the exports go to Hong Kong. Other export markets include Japan, Australia, the European Community, and since last year, the United States.

Cotton Mill No. 2 is known for its exceptionally high quality products, which was attributed in large part to more advanced management. Although the plant acquired new imported spinning equipment in 1981, its overall level of automation was described as "not high."

The total number of workers at this plant is 9,150. According to management officials, the plant could operate efficiently at current production levels with only 8,000 workers, but the need to maintain employment precludes reductions in the number of workers. Until 1980, the work force was organized into three shifts, with a 48-hour work week. The plant operates around the clock; if it did not, it would lose approximately 10 percent yield.

The average age of the plant's workers is 30. The typical worker begins working at the mill at age 18. For female production workers, retirement is at age 50; for male production workers, at age 60. Approximately 65 percent of the production workers are female; only 6.4 percent of the management workers are female.

Plant officials stated that wages in the textile industry in China are the fourth highest, after the mining industry, petroleum industry, and chemical industry. In addition to monthly wages and annual bonuses, the workers receive subsidized housing and meals on the grounds of the textile plant, as well as free medical care and nursery care for their children.

While in Guangzhou, staff visited the Guangzhou Knitting Factory. This particular factory employs 3,500 workers, of which 80 percent are women. It produces knitted garments, including T-shirts, jogging suits, sweaters, vests, underwear, nightgowns, men's ties, and men's outer jackets. In 1984, it produced 30 million finished pieces, and expected to produce 33 million pieces in 1985. Over 20 percent of the current production is destined for export markets. In 1982, its peak export year, 30 percent of production was for export. Export markets include the United States, Japan, West Germany, France, Canada, the Middle East, and Hong Kong. In 1985, this factory only exported pure silk garments and women's all-silk and all-cotton underwear to the United States.

Base wages for workers at this factory were slightly lower than those for the Beijing workers. Similar nonwage benefits, such as subsidized housing, meals, and medical care, were provided as well.

Conclusions

The delegation's meeting and travels in China were extremely informative and productive. The delegation learned a great deal about the progress which China has made in implementing its open door policy and pursuing its economic reforms and modernization program. Support for continued reform and modernization, accord-

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ing to the officials with whom the delegation met, remains strong. The levels of economic development which were evident in both Beijing and Shenzhen, and the participation of U.S. businesses in that development, are very encouraging.

The delegation was also able to express to Chinese officials certain concerns which the U.S. business community and U.S. policymakers have in our bilateral trade and economic relations. Most of these concerns were not new to Chinese officials. In light of the fact that these problems have not yet been resolved, however, the delegation reiterated these concerns and pressed for greater efforts to make some progress on their resolutions.

The delegation also used the opportunity to provide the Chinese government officials with an explanation of the economic and political factors which have generated such intense pressure in the U.S. Congress to consider the pending textile quota legislation. The delegation described the relationships between the global U.S. trade deficit, surges in textile imports and declines in textile exports, the geographic diversity of the U.S. textile industry and its importance to the U.S. labor market, and the particularly severe impact of plant closings in smaller, rural communities. Although members of the delegation were divided on support or opposition to the Jenkins bill, all members of the delegation felt it was important for the Chinese to understand the political climate which was sustaining the bill's momentum.

With regard to specific areas of concern in our bilateral trade relations, the delegation makes the following observations and recommendations:

1. We should increase joint efforts to reconcile the methodological differences in compiling statistics on U.S.-China bilateral trade. This continues to be an irritant in our relations insofar as Chinese officials insist on elimination of their alleged trade deficit. Moreover, to the extent that China insists on balanced bilateral trade, the Chinese statistics showing a trade deficit may serve as a deterrent to increased purchases of U.S. exports.

2. Both sides should increase efforts to reach agreement on a bilateral investment treaty. The uncertainty of the Chinese domestic legal environment makes it even more important for U.S. investors to be assured of certain rights and protections through a bilateral agreement. This increased protection will not only enhance U.S. investors' confidence in doing business in China, but also provide new incentive for U.S. investment in China.

3. In the area of market access in China, many improvements remain to be made. Access to reasonably priced office space and equipment and residential facilities must be improved. If China wishes to continue to attract U.S. business interests, it must maintain business conditions which are competitive with other developing country markets in Asia. U.S. businesses with offices in China must have some greater degree of control over the hiring and payment of its local Chinese labor, in order to operate efficiently and increase productivity. U.S. banks in China shoud be granted reciprocal treatment to Chinese banks in the United States with full commer-

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cial authority. At the very least, U.S. banks in China should be allowed to open letters of credit. Finally, China should provide for greater transparency and consistency of its laws and regulations affecting foreign enterprises and their business activities. The lack of readily available and reliable information on relevant laws and regulations, or proposed changes, acts as an impediment to trade and investment.

4. Efforts to develop China's energy resources should continue with vigorous support from the U.S. Government and U.S. business community. China's development of its energy sector offers tremendous opportunities for U.S. firms which are highly competitive in energy technology. The development of this sector also offers bright prospects for further diversification of China's export industries, and less reliance on textile exports as a major source of foreign exchange earnings.

5. In the area of technology transfer, the United States must try to streamline further the procedural requirements under U.S. export control laws and regulations which delay or impede U.S. exports to China. The United States must also press COCOM for more expeditious approval of export applications subject to multilateral review.

6. With respect to the textile situation, three points are made. First, China must avoid any surges in its exports in any given product line, which only serve to exacerbate the trade problem and threaten to cause market disruption. Second, China must continually try to diversify its exports, both within the textile product sector and among other nontextile product sectors. Third, both China and United States must press forward for prompt and meaningful renegotiation of the MFA to ensure a mutually beneficial multilateral framework governing trade in textiles.

7. Both China and the United States should increase the level of bilateral educational and cultural exchanges. Such exchanges create goodwill, promote better understanding of our social and political systems, and generate benefits to both sides for generations to come.

8. Finally, China should remain steadfast in its commitment to an open door policy and integration into world markets. International trade and investment benefit all nations, and allow a country to raise its standard of living through the strength and support of other countries. Economic development and modernization will take time, and China will inevitably encounter difficulties along the way. Short-term obstacles must not, however, detract China from a firm commitment to opening its markets and trading with foreign nations on a fair and reciprocal basis. The United States will continue to support China's open door policy and pursue increased commercial cooperation between the largest country in the developed world and the largest country in the developing world.

Nepal

Overview

In Kathmandu, Nepal, meetings with senior Nepalese officials included the King and the Prime Minister and provided valuable insights into the problems facing a least developed developing country in the areas of infrastructure and economic development. As one of the United States closest and most reliable friends in the Third World, there are no significant bilateral problems in United States-Nepal relations. However, with a desperately poor population, Nepal is a significant recipient of U.S. development assistance and is the site of our largest Peace Corps contingent.

United States-Nepal Trade Relations

The relationship between Nepal and the United States has been friendly since its formal establishment in 1947. Through the Agency for International Development, the U.S. has provided Nepal in recent years $15 million per year in development assistance grants. In fiscal year 1985, such assistance programs will total approximately $20 million including centrally funded programs. In 1984, the United States exported $3.9 million for Nepal and took about $8.1 million in Nepali imports.

U.S. trade relations with Nepal are limited, but growing. Until recently, Nepali exports to the United States have consisted primarily of carpets, handicrafts, and certain agricultural products. The Nepali consumer market offers limited possibilities for U.S. exports. Nepali imports of U.S. goods have largely been concentrated in the area of medicines, milk and milk products, and foodstuffs. However, significant opportunities may emerge in specialized fields such as electric power generation and electrical distribution, as well as in design and implementation of major hydro-power development projects. Nepal is in the process of developing an indigenous textile industry. In the past 2 years Nepali textile exports to the United States have increased significantly, and like other textile exporters, Nepal is concerned about continued access to the U.S. textile market.

Foreign assistance continues to play a critical role in financing the country's development plans and in covering budgetary deficits. Such aid has increased rapidly, especially from multilateral sources such as the World Bank and the Asian Development Bank. Nepal's balance of payments has been generally favorable, with foreign exchange reserves continuing to rise despite a large increased trade deficit. Growing receipts from tourism supplement the country's foreign exchange earnings.

Because it is a landlocked country, Nepal finds it difficult to diversify its external trade. India, with which Nepal has a virtually

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open border, accounts for nearly 70 percent of Nepal's exports and half of its imports. Exports consist mostly of agricultural goods (mainly rice), and imports consist of manufactures, consumer goods (mainly textiles), and industrial materials such as cement, iron and steel, and petroleum products. In order to trade with overseas countries, Nepal has to transport all imports and exports about 400 miles to Calcutta or ship by air. Because of long delays in shipment, transloading of rail shipments at the border, pilferage and damage during shipment, plus a shortage of warehouse facilities in Calcutta, the obstacles to Nepal's overseas trade are substantial.

U.S. trade with Nepal is extremely limited. U.S. exports amounted to $7.6 million in 1983 and dropped to $3.9 million in 1984. They consist primarily of food products (flour, milk, edible oil) and automobiles/aircraft and parts. The value of U.S. imports in 1983 was $6.5 million and rose to $8.1 million in 1984. Primary imports include textiles, carpets and handicraft items. This increase in imports is continuing into 1985; U.S. imports during the period January-April for 1984 and 1985 were $8 and $1.4 million respectively.

Although Nepal likely is not destined to become a major market for U.S. products, significant opportunities for American business may emerge in certain specialized fields, particularly in hydroelectric power generation and electrical distribution. While U.S. equipment has some difficulty meeting foreign competition, there may soon be noteworthy opportunities in Nepal for American expertise in the design and implementation of major development projects. Of particular interest are hydropower projects financed by the World Bank (IDA) and by the Asian Development Bank. These projects offer opportunities for consultancy, contracting, and to a lesser degree, equipment sales.

There is virtually no private foreign investment in Nepal. To improve industrial development, and to concentrate its financial resources in other development areas, the Government of Nepal (GON) has put a high priority on encouraging the growth of the private sector. There remains an acute shortage of capital, management and technology in Nepal which the government hopes to correct by attracting foreign investors. In 1982, Nepal passed an investment law designed to encourage the development of the private sector and to attract domestic and foreign investment through tax holidays and a variety of other incentives. Except for defense and cottage industries, there are no restrictions on industries where foreigners may invest. Although labor is cheap and plentiful, it is unskilled. This condition, together with the high cost of transportation and raw materials, has hindered the growth of investment from abroad.

Nepal's land-locked geography presents a serious obstacle to attracting foreign investors who might set up manufacturing facilities in Nepal primarily for export. Nepalese exports to India receive favored treatment under the terms of a Trade and Transit Agreement. Nonetheless, India has taken action in the past on manufactured items from Nepal that make clear it does not want industries to develop in Nepal primarily aimed at serving the Indian market.

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ISSUES

Generalized System of Preferences (GSP)

The GSP program is important to Nepal because many of its present exports qualify for GSP treatment. In 1984, $191,916 worth of goods from Nepal received duty-free treatment under GSP. In May 1984, the United States sent a letter to the GON outlining the procedures to enter into the handicraft arrangement, which would grant GSP benefits for specific handicraft items. The GON responded in November 1984 accepting the conditions outlined by the United States. Once the GON submits the facsimile of the seal that will be used to identify an item as a handicraft, and the names of the certifying officials, the arrangement will go into effect.

Nepal has expressed its interest in obtaining GSP benefits for some of Nepal's carpets. In 1980, the GON was denied review of its petition to include TSUS 360.15, hand-knotted woolen carpets, on the GSP list. However, some other Nepalese carpets may be GSP eligible under the handicraft arrangement or by being classified under one of the few TSUS floor covering categories that are GSP eligible. Nepal has been encouraged by the United States to send samples and product descriptions to the Customs Service to determine under which TSUS category the carpets would be classified.

Textiles

Nepalese trade in cotton apparel has increased rapidly in a short period of time. Cotton apparel imports increased from 80,000 square yards equivalent in the 12 months ending May 1984 to 10.1 million in the same period in 1985. Specific categories which are being monitored are Category 340 (men's cotton woven shirts), 341 (women's cotton woven blouses), 342 (cotton skirts), and 348 (women's cotton trousers).

Within the past year, shipment of readymade garments to the United States has grown from a negligible amount to become the largest export earning category for Nepal. The growth of the garment industry in Nepal has demonstrated to the Nepalese that they can earn hard currency by making and exporting labor-intensive, air-transportable goods. Much of the original impetus for this growth came from Indian entrepreneurs who may have set up operations in Nepal because their own country's quotas were filled.

Export and investment promotion

Nepal has recently opened a small trade promotion office in New York in connection with a World Bank cottage industries development project. Their main concern is to promote Nepalese exports of textiles, carpets, and other handicraft items.

Following the visit to Nepal in April of the Deputy Under Secretary Olin Wethington, ITA assisted Nepal by identifying and contacting U.S. companies that might be interested in some investments. Virtually all responses received from the companies were negative. The companies believe that the development level of Nepal is not yet sufficient to support the projects, and that the proposals themselves were not adequately substantiated. However, a few of the companies expressed interest in giving some consideration in the future to more detailed proposals if they have the sup-

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port of both the Nepali government and the U.S. Embassy in Kathmandu.

The Nepali Government has expressed its intention to return a number of public corporations to the private sector, including Royal Nepal Airlines and the Nepal Rastra Bank. This is a further indication that Nepal wants to establish its commercial sector on private, market-oriented grounds. Because of the very small size of the Nepal market and its limited prospects for expansion, the Department of Commerce does not have a Foreign Commercial Service post in Nepal. Commercial work in Nepal is performed by a State Department officer in the U.S. Embassy in Kathmandu.

Highlights of Meetings With Nepalese Officials

While in Nepal, in addition to discussions with Embassy personnel, the Members met with King Bir Bikram Shah Dev, Prime Minister Lokendra Bahadur Shah Dev, Prime Minister Lokendra Bahadur Chand and Marich Man Singh, Chairman of the Rastriya, Nepal's parliament. Although textiles is the primary trade issue of concern to Nepal, trade problems between the two countries are few. The Members took the opportunity tc better understand the developmental efforts of the country and the role of the United States through aid, Embassy contacts, economic assistance and the Peace Corps.

Nepal is one of the least developed of developing countries ranking between the third and seventh poorest country in the world and having a per capita income of only about $160 per year. Literacy is only about 20 percent. Nepal has the highest infant mortality rate in the world, with 180 deaths per 1,000 births. Fifty percent of the population lives 6 hours from the nearest road. Agriculture production represents 94 percent of Nepal's GNP, yet production has declined consistently over the last decade. The country's natural resource base is deteriorating rapidly, primarily because of agriculture terracing of the hillsides combined with the monsoon rains. It is expected that continued deforestation will leave few trees by the turn of the century.

Lack of communication and information is also a serious problem for Nepal's citizens. There is no television and only two major newspapers, one in English, that are operated by a government owned corporation. However, there are many local free agent newspapers that provide a limited service of information and forum for comment. Nepal has one university, Trebhervow located in the Mandu, but its standards are relatively low and there is strong demand for study abroad. The United States contributes to increased understanding of American life by the Nepalese through education, seminars and cultural events, especially those that emphasize democratic values and institutions. The English Language Institute in Kathmandu trains about 1,000 students per year. A popular place for Nepali students' foreign study is the East-West Center associated with the University of Hawaii. Also, there are about 25 Nepalese currently studying in the United States under Fulbright scholarships.

The primary U.S. interests in Nepal are to have the Nepali Government maintain the country's political stability, achieve further

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economic development and continue the country's useful international role. Nepal has been an evenhanded member of the nonaligned countries and has good relations with the United States, with its neighbors and with Israel. The country has contributed its famed Ghinka soldiers to international peacekeeping efforts, and Nepal has joined 65 other nations in declaring itself a "zone of peace." Nepal has only a small army of 25,000 to 30,000.

When the Peace Corps began in 1962, Nepal got its first volunteers. Currently, there are 170 volunteers throughout the country. The goal of the Peace Corps in Nepal, and elsewhere, is to provide technical manpower to assist in development projects, to teach American values and culture and to provide a link for educating Americans about Nepalese. The United States also provides aid in the areas of rural health, family planning, resource conservation and rural development. About $15 million in U.S. aid money has been earmarked for reforestation efforts, control of hillside erosion and water resource management.

Because of the beautiful Himalaya Mountains, Nepal has about 20,000 American visitors annually. The counselor section of the Embassy tries to offer assistance to those Americans who come to Nepal to trek or just get away and enjoy the countryside.

The members met with Chairman of the Rastriya Marich Man Singh, head of Nepal's one-party parliament. Although trade between the U.S. and Nepal is not significant, Mr. Gibbons expressed the hope that bilateral trade would continue to expand and that specific trade problems would continue to be few. India is Nepal's biggest export market. Legislators from Nepal regularly attend the Interparliamentarian Union conferences and share their concerns and interests with their counterparts from the United States.

The Rastriya is composed on 140 Members and meets for only 3 months each year. However, committees meet throughout the year to resolve problems and draft legislation to present to the Committee of the Whole House during the regular session. Elections are held in March and Members are elected for 5-year terms. The voting age is 21 years and between 50 and 60 percent of the population vote regularly. Recently, there has been terrorist activity in Nepal, and a bomb was exploded at the entrance to the Rastriya; a Member was killed in addition to serious damage to the building.

Chairman Singh emphasized that textiles was of principal interest to Nepal as an export to the United States and expressed concern about pending textile legislation and the protectionist mood of Congress. Most such exports consists of handicrafts and carpets, but there has been a recent increase in production of readymade garments for export. The U.S. Embassy has encouraged further diversification in Nepal's textile productions so that exports do not adversely impact the U.S. market. Principal U.S. exports to Nepal are agriculture products and processed food. Nepal buys mostly Japanese automobiles because of the smaller size and fuel efficiency.

The Members briefly discussed environmental controls and resource management with Chairman Singh. Most of Nepal's environmental efforts are in reforestation. Air pollution is not being addressed at all. Lack of natural resources is a serious problem. There are no known petroleum or coal reserves but some limited

natural gas reserves are a possibility. Nepal does have great potential for hydropower, contingent on the availabiiity of capital or aid money, and hydropower currently furnishes all of Kathmandu's energy needs.

The meeting with Prime Minister Lakendra Bachadur Chand focused on the importance of textile exports for Nepal, especially in handicraft items, but also emphasized the importance of U.S. assistance and investment in the areas of transportation, communication and infrastructure development. Tourism is also an important aspect of Nepal's economy, with increasing numbers of American and other tourists coming for the scenery or to trek in the mountains. The Prime Minister expressed appreciation for U.S. assistance to a very developing country like Nepal.

For Nepal, our generalized system of preferences (GSP) for developing countries has been especially important. The Prime Minister requested GSP be expanded to additional items for Nepal, noting that certain Nepalese carpets had not yet been approved for duty-free treatment. Carpets and other traditional handicraft items are important export items. The Members clarified the recent changes in the GSP law that made it more flexible, especially for the least developing countries, but reminded the Prime Minister that textile items were excluded from GSP unless they are truly hand-crafted. Carpets are not necessarily excluded because they are textiles but the definitions for eligible items is very strict. It was suggested that Nepal work through the Embassy with the U.S. Trade Representative's office to determine whether certain Nepalese carpets can become qualified for GSP.

Nepal is also interested in selling ready-made garments, raw leather, herbs and hardwood. However, they are having some difficulty finding markets. The Prime Minister admitted that Nepal needs to improve contacts with purchasers in the United States and elsewhere. India is Nepal's largest trading partner with Japan and the European Community also important markets. Like most countries, Nepal has difficulty with access to the Japanese market, and Nepal's deficit with Japan is higher than Japan's aid program for Nepal.

Nepal is trying to diversify its economy and improve its competitive position overall. Many government owned enterprises have been sold to private interests. International Telephone and Telegraph (ITT) supplies Nepal's telecommunications, and the Prime Minister said that his country would welcome more U.S. investment especially in technological companies. Since one of the reasons U.S. companies move overseas is to take advantage of lower wage rates, Nepal's wages would be more attractive than many developing countries. However, the Prime Minister recognized that Nepal's lack of adequate infrastructure was a serious stumbling block to outside investment.

Continued aid from the United States and from other countries was discussed as the meeting closed. Since only 2 percent of Nepal's hydropower potential has been developed, projects such as the Kanali Water Project have the highest priority. This $6 billion project is being funded about 40 percent by IDA financing as well as soft loans from other international agencies; the rest of the funding is private. Erosion and flood control efforts are important

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corollaries to hydropower. Requests for American aid have centered on smaller projects such as irrigation, agriculture improvements and erosion control. The Prime Minister expressed disappointment that American aid has not been enhanced over the last couple of years, but Members reminded him of the difficult budget situation in the United States coupled with the unpopularity of some foreign aid.

Prior to departing Nepal, Chairman Gibbons and Mr. Frenzel made a courtesy call on King Bir Bikram Shah Dev. The friendly relations between the two countries were reinforced as were hopes for expanded bilateral trade. The King has been instrumental in initiating constitutional reforms, including elections based on adult franchise. The King emphasized Nepal's peace efforts and urge further international acceptance of the concept of Nepal as a "zone of peace", an idea incorporated into the Nepalese constitution in 1980.

Conclusion

The current trade relationship between Nepal and the United States is quite good, with few outstanding problems.

With textile products emerging as Nepal's primary export, earner of foreign exchange and source of economic development and employment, textile trade is a potential problem area for U.S.-Nepal bilateral trade relations. The Government of Nepal expressed serious concern about U.S. textile legislation and the mood of protectionism in Congress that might hinder the further development of a manufacturing base in Nepal as well as have other adverse economic consequences for that country.

Another important area for Nepal's development is the benefits the country gets under the GSP program. They are anxious to expand these benefits, especially for carpets and other handicraft items. Although it is difficult to gain GSP treatment for textile products, since most such products are specifically exempt from GSP, the U.S. Government is willing to work with very underdeveloped countries like Nepal to have additional indigenous products qualify for duty-free treatment.

Nepal officials emphasized the importance of American aid to the country's future development and expressed concern that aid levels had not increased over the past several years. Although they recognized that the United States was facing serious budget problems and that some kinds of foreign aid are unpopular, Nepal depends greatly on such aid and is a strong ally of the United States in the region. Increases in developmental aid would improve Nepal's economy and reinforce the stability of the government that has been under some pressure, including terrorist attacks, primarily as a result of economic problems.

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India

Overview

Between August 13 and 17, 1985, the delegation visited India. In addition to meetings with Indian officials and business leaders in New Delhi and Bombay, the delegation briefly toured Calcutta and Agra, site of Taj Mahal. India is now in a period of transition to a new generation of leadership, one that is more pragmatic and technologically oriented and more favorably inclined toward the West. Prime Minister Rajiv Gandhi is, of course, the leading figure. His primary interest is economic development and technological modernization, areas which provide a great opportunity for improvement in United States-India relations. He has already initiated economic and trade liberalization measures. During the delegation's visit to New Delhi, the Prime Minister was preoccupied with the political events in the Punjab and Assam region and thus was unable to meet with the delegation.

As a leader of the Third World and the Non-Aligned Movement, and as the world's largest democracy, India plays an important role in north-south issues and in world affairs. However, India's close relationship with the Soviet Union, the ongoing Indo-Pakistan conflict and the issue of nuclear development in South Asia, are all issues of concern for the United States in South Asia.

India has made great strides in recent years. According to Embassy officials, the so-called "Green Revolution" and improved transportation systems have helped India to achieve food self-sufficiency. Its scientific community is one of world's largest and most advanced. India's economy and industrial sector have experienced dramatic growth in recent years.

However, India's problems are real and vast. The delegation observed first hand the massive poverty in India, which, along with overpopulation, is India's major economic and social problem. U.S. Embassy officials noted that half of India's mammoth population of nearly 800 million people live below the poverty line. Further, officials reported that illiteracy continues to the widespread, with India's literacy rate estimated to be only 40 percent.

During a visit to India's parliament, the Lok Sabha, the delegation meet with parliamentary leaders and visited the floor of the House Chamber. The delegation notes Prime Minister Gandhi's recent visit to Washington, where his impressive speech to a Joint Session of Congress emphasized bilateral technological, scientific and commercial cooperation.

United States-Indian Trade Relations

During the past 5 years Indo-U.S. two-way trade increased by about 50 percent, from $2.9 billion in 1980 to $4.3 billion in 1984.

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Figures for the first 4 months of the year show a 2.6 percent increase from $1,521.1 million in 1984 to $1,561.9 million in 1985.

The United States continues to be India's largest trading partner. India's imports from the United States represented 12 percent of its total imports in 1983 and Indian exports to the United States represented 22 percent of it total exports. In contrast, India's share of both U.S. exports and imports in 1983 was nine-tenths of 1 percent.

The United States has traditionally maintained a favorable trade balance with India. However, in the past 2 years U.S. imports from India have exceeded U.S. exports, creating trade deficits of $507 million in 1983 and $1,172 million in 1984. A large part of these deficits can be attributed to the substantial increase in imports of crude petroleum for which refining facilities in India are inadequate. Indian exports to the United States of crude petroleum in 1981 were negligible; in 1983 the figure was $849 million and in 1984, $773 million. The variable nature of U.S. exports of cereals to India (which are dependent upon monsoon performance) also affects the trade balance. U.S. exports of wheat to India dropped from $576 million in 1983 to $43 million in 1984.

The increased volume of Indo-U.S. trade has been accompanied by a change in its composition. India is turning to the United States for more raw and semi-processed materials for industrial consumption and for manufactured goods. Principal U.S. exports include aircraft, industrial machinery, and fertilizers. U.S. imports other than Indian crude petroleum include gemstones, textiles, seafood, and nuts.

The prospect of increasing U.S. exports in the high technology range appears to be improving as Prime Minister Rajiv Gandhi recognizes the need to import advanced capital goods to improve India's industrial development and competitiveness. India's new computer policy relaxes restrictions on the import of computers and their components.

According to the Commerce Department, India has a complex and protective import policy that has restrained the growth of Indo-U.S. trade. Indian tariffs and auxiliary duties are considered among the highest in the world. Standard rates of duty usually vary from 40–100 percent but can be as high as 200 percent; auxiliary duties are in the 30–40 percent range. *The most prohibitive aspect of the Indian import policy is the complex and cumbersome licensing system.* While some attempts at liberalizing this system have been made in the past few years, they have primarily benefitted export-oriented manufacturers and have not significantly altered the trade environment. However, since Prime Minister Gandhi prefers to use tariffs rather than licenses to protect Indian industry, there is hope that progress toward liberalizing the licensing system will be made in the near future.

U.S. exports are also restrained by a number of other factors including: U.S. export controls (particularly on high tech items), the high value of the U.S. dollar, the high travel and freight costs, the lack of competitive financing, strong third country competition, and rupee trade agreements with certain communist countries.

In 1984, $257 million in Indian goods entered the United States duty-free under the GSP program. This figure represents 81 per-

cent of all GSP eligible imports from India, making India one of the major users of the GSP program. Although the GOI has perceived some problems of access to the U.S. market in the past several years, the problems have basically been cases where legislation governing trade has allowed little or no discretion on the part of the concerned USG agencies.

The Indo-U.S. Joint Commission, established in 1974, coordinates inter-governmental programs with India in four areas, including the economic/commercial area. The Economic/Commercial Subcommission last met in New Delhi in December, 1983 and a working group under the Subcommission met in Washington in May 1985. Discussions cover multilateral and bilateral issues, including trade barriers, investment problems, economic assistance, and private sector initiatives.

The India-U.S. Business Council, operating under the aegis of the U.S. Chamber of Commerce, is the private sector counterpart of the Economic/Commercial Subcommission. The Council sponsors research and information programs to facilitate Indo-U.S. business relations, identify trade and investment opportunities, provide a forum for discussion of Indo-U.S. policy issues, and make recommendations for consideration by both governments.

[In millions of dollars]

	1982	1983	1984	January–April	
				1984	1985
U.S. exports to India	1,599	1,828	1,570	544	551
U.S. imports from India	1,404	2,191	2,552	977	1,011
U.S. surplus/deficit	195	−363	−982	−433	−460

Source: U.S. Census Bureau

Apart from the effects of the stronger U.S. dollar, much of the growing U.S. deficit is due to Indian exports of crude petroleum which cannot be refined domestically. Other major Indian exports include diamonds and readymade garments. Major U.S. exports to India include machinery and transport equipment, wheat, and chemicals and fertilizers. In addition, there is a rapidly growing market for U.S. electronic equipment, most notably computers.

TRADE ISSUES OF SPECIAL IMPORTANCE TO THE UNITED STATES

GATT new round.—Speaking for the developing countries as a group, India and Brazil have played leading roles in questioning the utility of a GATT new round of mulitilateral trade negotiations at this time. Both countries have taken the position that there is still unfinished business from the Tokyo Round, and that LDCs have little to gain from a new round, for example, in the absence of significant concessions from the developed countries on textiles. In addition, India is uncertain about the implications of a freer trade regime in services, which is one of our principal goals in a new round. U.S. trade officials have tried to persuade the Indians that they could benefit from a free regime for services, and that a

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GATT new round offers the best hope for resisting protectionist forces.

Indian import liberalization.—The United States has welcomed the significant steps taken by India's new Prime Minister to liberalize the economy, including both imports and investment. India has pursued a consistent policy of reducing quantitative import restrictions—particularly for capital goods and raw materials—since 1971. In just nine months, however, the new Prime Minister has accelerated this process and has reduced import tariffs substantially for a number of capital goods.

Intellectual property protection.—Indian laws and regulations do not provide sufficient protection for U.S. patents, trademarks, and copyrights, nor is there sufficient enforcement of the laws which do exist. Royalty payments are normally limited to 5 years. This is one reason for the relatively modest level of U.S. investment in India.

Indian import restrictions on almonds.—Over the past few years the United States has made a number of representations to the GOI aimed at reducing tariff and non-tariff barriers to imported almonds. This is a matter of importance particularly to U.S. almond exporters from California. After 2 years of some improvement, the GOI on April 1, 1985 tightened restrictions even further—limiting import licenses to 20 percent of the applicant's best year's imports since 1972. Import tariffs are in the 120–170 percent range. U.S. almond exports to India totaled about $3.5 million in 1984, down from previous years.

TRADE ISSUES OF SPECIAL IMPORTANCE TO INDIA

U.S. export licensing.—It is recognized that significant potential exists for an expansion of Indo-U.S. trade and investment ties in advanced technology areas, and that this activity offers one of the most promising channels for an improvement in overall relations between the two countries. A principal constraint has been U.S. concern over the possibility that sensitive U.S.-origin technology could find its way into the hands of the Soviets, or into India's unsafeguarded nuclear program (India is not a signatory to the Nuclear Nonproliferation Treaty). The United States recently concluded a Technology Transfer Memorandum of Understanding with India, providing very specific safeguards against diversion to third countries. The United States is working with the GOI on an understanding to ensure that U.S.-origin technology is not used for nuclear purposes. It is anticipated that these agreements will pave the way for a significant expansion of Indo-U.S. high-technology trade and investment.

U.S. textile import restrictions.—Given India's heavy reliance on exports of readymade garments ($221 million to the United States in 1983), U.S. textile import restrictions are a significant irritant in our bilateral trade relations. Under our 4-year bilateral textile agreement (1983–86), the United States placed quantitative limits on 10 textile categories and 1 textile "group." Since then, we have placed limits on a substantial number of new categories. The Indians have complained, and in certain cases to the GATT, that our textile "calls" are made without adequate justification within the

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market disruption criteria of the MFA and the bilateral textile agreement. In 1984, the United States withdrew two "calls" after the GATT Textile Surveillance Body found merit in the GOI argument. More recently, a disagreement has arisen between the two governments over the definition of "handmade" garments; we have allowed a 90-day grace period, ending September 1, for resolution of this problem.

GSP.—India is a major beneficiary of GSP, ranking 9th in the world in 1984 with a total of $257 million in duty-free GSP exports to the United States (a 30 percent increase over 1983). In working-level economic talks this past May, the United States briefed the Indians on the key features of the 1984 Trade and Tariff Act, which provided for a renewal of the GSP system but also called for a detailed country-by-country and product-by-product review to analyze the level of competitiveness in each case as well as the degree of market access accorded by beneficiary countries to U.S. exports. The Indians are concerned over what they regard as the introduction of reciprocity into the U.S. scheme, and claim that sections of the new law run against GATT provisions that the GSP be administered in a non-discriminatory and non-reciprocal manner.

Highlights of Meetings With Indian Officials

PREM KUMAR, SECRETARY OF COMMERCE

Commerce Secretary Prem Kumar had wide ranging comments on economic policies, bilateral trade problems and multilateral issues. Mr. Kumar noted that bilateral relations are for the most part smooth, although problems do exist in textile trade where India employs nearly 10 million people.

The Commerce Secretary expressed concern over the restrictions contemplated on handloom exports to the United States and said this would adversely affect the handloom sector in the country's textile industry and noted that the matter needs to be sorted out immediately in order to expand bilateral trade. He explained in detail why the earlier U.S. policy of exempting handloom exports from the Multi-Fiber Agreement was appropriate; the new policy of identifying some work as manufactured and other as not was inappropriate.

He also discussed the problem of bringing services into the GATT discussions and the reasons for Indian reservations. He questioned whether GATT rules and approaches which were designed with goods in mind would be appropriate to deal with the wide range of service activities, such as banking, tourism and transportation. He indicated that the United States had not clearly expressed its objectives. If we were to clarify our position the Indians would still wonder whether including services is appropriate. He described the critical role that banking plays in India's development to help implement government priorities, for example, and stated firmly that India would be unwilling to abrogate this sovereign right to an international body.

Mr. Gibbons expressed admiration for the economic progress India is achieving, especially under the Rajiv Gandhi regime.

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Chairman Gibbons further stated that India has almost reached the stage of development from which it could soon enter the group of developed countries. He especially commended the new economic policies of Rajiv Gandhi in opening the Indian economy to private enterprise, domestically and to foreign competition in the world market.

Mr. Pease noted the great interest towards India now present in the United States. He indicated that the delegation was encouraged by Gandhi's attempts at liberalization. With respect to textiles, he noted that the textile issue was tied to jobs and politics in the United States and any import restrictions will be a political and not an economic decision. In commenting on the GATT, Mr. Pease noted U.S. dissatisfaction with dispute settlement procedures. Mr. Campbell further explained the difficulties being faced by the U.S. textile industry and the need for legislation to restore some balance, particularly where several trading partners have been circumventing the MFA and disrupting the U.S. market. The Congressman also pointed to the need to improve the GATT dispute settlement procedures. He urged the Indian Government to seriously consider a new GATT round.

V.P. SINGH, MINISTER OF FINANCE

Mr. Gibbons commented substantively and favorably on the speech to the U.S. Congress by Prime Minister Rajiv Gandhi and to the new economic initiatives being taken by the new administration in India. He recognized the important role Miniser Singh was playing in this new policy through a more growth-oriented tax system, an increased role for private Indian enterprises, and greater openness in the Indian economy. Mr. Singh's speech on the 1985-86 budget on March 16 has been recognized as one of the major events in this unfolding policy.

A dialog among Mr. Singh and the various members of the Codel ensued. Mr. Jones raised a series of questions reflecting U.S. business interests in India, including foreign (American) bank reciprocity; protection for intellectual property rights (patents for pharmaceuticals); equity ownership limits on foreign investment; procedures for facilitating but controlling technology transfer under the India-United States Memorandum of Understanding; and unfair competition in connection with the pending civil aircraft sale between Airbus and Boeing.

Mr. Schulze commended the Indians on improving internal and external trading practices but mentioned a number of issues including the uneveness in reciprocity; inadequate provision for direct investment and equity for U.S. corporations; inadequate enforcement in the GATT and the fact that it does not include services; and mechanisms needed in the U.S. to avoid "surges into the U.S. market" of textiles and other products.

Mr. Schulze noted that the politics of trade are changing. While the United States was once the most open market in the world, we are now closing the market as others are opening and we are accused of protectionism. He stressed that reciprocity should be a key principle of trade policy. In that regard Congress will be taking a closer look at international trade. Even with restrictive legislation,

however, we will still end up with the world's most open trading system.

Mr. Singh replied that everyone tends to look at things in their domestic context. India's constraints in opening markets is the availability of foreign exchange. In spite of this, India has taken several important measures to liberalize but there is potential for political backlash in India too.

He went on to say that the problem is greater in India because of such a large population. Unemployment is poverty, we know that we have to pursue the path of openess and allowing more market forces to play, but it will not be politically easy here either. He asked how can an economy so strong as the United States protect its industry. The question we must all ask is whether it is worth it to protect an individual industry, when you recognize the problems that would result to the economy as a whole. Mr. Singh concluded by stating he would look into the bank and investment issues and would pass on the delegation's concerns to the Prime Minister. He pointed out that a lot of potential exists to improve bilateral relations.

Highlights of Meeting With Business Leaders

The delegation had a series of meetings with business leaders representing Indian and U.S. companies. The most enlightening discussions took place at a breakfast meeting in New Delhi and a luncheon meeting in Bombay, both of which were hosted by the Indo-American Chamber of Commerce. These meetings, together with small group meetings with top executives at Citibank, Hindtron Ltd. and Tato Sons Ltd. in Bombay, provided an excellent opportunity for the delegation to gain an appreciation of the business climate in India and the potential for increased U.S. investment in India.

The Indo-American sponsored meetings in New Delhi and Bombay were widely attended by local businessmen in both cities and a lively and healthy discussion took place at both. The delegation sensed a very positive attitude at each of our meetings about the improving climate for bilateral trade relations between the United States and India. However, there are some outstanding problem areas between our countries which were discussed at the meetings.

At the New Delhi meeting, for example, a representative of an Indian textile company complained that changes in U.S. policies often result in sudden disruptions of trade channels. He cited as an example a recent U.S. Customs classification decision holding that certain textile pillow shams which heretofore had been classified as hand made and not subject to quota restraints under the Multi-Fiber Arrangement (MFA) were actually machine-made and subject to quota limits under the MFA. His complaint related not so much to the substance of the decision as to the impact that it had on shippers and importers for orders that had already been placed. He urged the delegation to consider implementing a system in the United States whereby once on order is confirmed and a letter of credit issued for a shipment, it would be permitted to be imported under the rules then in effect.

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The delegation explained that this is a difficult area under the U.S. system of quota calls because, by the time we know that foreign imports of a particular product are beginning to "surge", many ships carrying such products are often in transit. If all of those shipments are allowed in, the U.S. textile industry producing like products could be severely impacted.

At both the Bombay and New Delhi meetings there were lengthy discussions about the fact that India and the United States have, thus far, been unable to conclude a bilateral tax treaty. Concern was expressed by several Indian businssmen that the failure to conclude such a treaty has created an impediment to the flow of technology from the United States to India. A representative of the U.S. Embassy in New Delhi informed the group that significant progress had been made in recent months and that additional discussion had been scheduled for October. Mr. Gibbons, on behalf of the delegation, indicated that he would look into this matter upon his return to the United States and would urge the U.S. negotiators to move quickly to conclude such a treaty with India. (On September 11, 1985, Chairman Gibbons met with representatives of the U.S. Department of Treasury who are involved in the negotiations and was told that the negotiations are going well. After being informed about the current sticking points in the negotiations, the principle one being India's demand for a "tax-sparing credit", Mr. Gibbons urged the Treasury officials to conclude an Agreement as quickly as possible.)

Another issue which was discussed at length in the New Delhi meeting was whether Indian branches of U.S. banks were receiving national treatment in India with regard to taxes. One participant alleged that foreign banks were subject to higher taxes than Indian banks in India. However, it was pointed out by others in the audience that Indian banks are subject to a number of social obligations that foreign banks are not, such as a requirement to lend to priority sectors such as rural areas and other underdeveloped areas with high risk factors. Nor are foreign banks required to invest in India. In response to a question from Chairman Gibbons as to whether they would prefer to have national treatment (i.e., be subject to the same benefits and obligations as Indian banks) a representative of Citibank indicated that they are perfectly happy with the status quo.

There were two issues that dominated the discussions at the luncheon meeting of the Indo-American Chamber of Commerce in Bombay. First, several businessmen in the audience sought guidance from the delegation as to why there appears to be a reluctance on the part of U.S. companies to invest in India and what can be done to encourage increased investments. One member of the delegation responded that, in his view, there were three principal reasons why U.S. companies have not been overly enthusiastic about investing in India. First, American companies are used to an environment of unbridled free enterprise and are put off by a controlled economy. Secondly, American companies are not very patient. They need to see propects for substantial rewards in the short term when making investment decisions and even though the long-term prospects for rewards from investment in India are outstanding, the prospects in the short term are not as good. Finally,

many companies are nervous about the investment laws in India which establish a 40 percent limitation on foreign investment unless exceptions are granted.

Other members of the delegation expressed the view that many U.S. companies are unaware of the improved investment climate in India under Prime Minister Rajiv Gandhi and that India needs to educate U.S. companies on the new opportunities that exist in India. In support of this point, another delegation member cited an example of a company from his district that tried to do business in India in the late 1960's and early 1970's and was rebuffed. His view, which is widely shared by many U.S. companies with similar experiences, is that they are not wanted in India. Another Member of the delegation concurred in the perception problem that exists in the United States and urged India to launch an education campaign for U.S. companies to demonstrate that U.S. companies are welcome and that the market potential is great. He concluded that if an American businessman thinks he can make money by investing in India, he will do so.

Secondly, there was a lengthy discussion about existing impediments to the export of high-technology products from the United States to India. The delegation explained the background of the Export Administration Act and its political sensitivity in the United States. Members of the delegation were deeply disturbed to learn in a briefing by the U.S. Consulate in Bombay that the U.S. share of the Indian computer market had dropped from nearly 90 to 45 percent over the last 18 months because of the slow process of approving export licenses under the Export Administration Act. Members expressed their frustration at the impact that this law is having on the international competitiveness of U.S. companies. The act is not successful in keeping the technology from the Soviets because many other countries such as Japan, Germany and France are willing and able to sell a comparable product whenever the United States refuses to issue, or delays the issuance of, an export license for a particular product.

The delegation expressed optimism that the recently concluded Memorandum of Understanding (MOU) on the transfer of high technology between the United States and India would soon improve the situation. Upon implementation of the Understanding, a number of outstanding orders for computer and other high technology equipment would be promptly licensed by the U.S. Government for shipment to India. The delegation was disturbed to learn during our visit, however, that the implementation of the MOU was being held up because of a new request from the Indian Government with respect to the language on the control of nuclear technology. The delegation indicated that they intended to write a letter to Prime Minister Gandhi on this point (such a letter was sent on August 17, see Appendix G) and urged the audience to do what it can to influence the Indian Government to settle this matter as quickly as possible. This matter has now been resolved and the MOU is in effect.

During the delegation's visit to Bombay, the delegation split into two groups for separate visits with Indian businessmen. One group spent the morning with Port Trust Chairman Zafar Saifullah touring Bombay port installations followed by a briefing and discussion

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with top management of India's largest conglomerate, Tata Sons Private Limited, including J.R.D. Tata, founder and Chairman of the Board. The second group went to the Citibank offices to receive a briefing on India's economic, trade and investment climate by top management followed by a visit to Hinditron Ltd. for a discussion on trends in the electronic industry in India.

The visit with Mr. Tata (described by many as the Henry Ford of India) was extremely enlightening to the delegation Members who attended this session. Mr. Tata provided an historical perspective on the improving climate for business in India and offered advice on potential investment opportunities for U.S. companies in India.

Mr. Tata explained that the private sector has undergone a difficult period since independence in India. The Government has been very Socialist-minded and private enterprise had always been somewhat suspect until recent years. Changes began to take place with Indira Gandhi and have accelerated greatly under Rajiv Gandhi. Mr. Tata believes that a fundamental and, in his view, spectacular change is taking place and that private industry in India will benefit greatly.

Mr. Tata noted that he had good personal relations with Prime Ministers Nehru and Indira Gandhi but that they were dedicated to the socialist formulation for economic development where the central government should guide development from the "commanding heights". Now, for the first time Mr. Tata and other private sector leaders have a voice in economic policy determination.

There is also a related change in India's approach to the budget. Whereas India was once the most heavily taxed nation in the world with a tax rate of 97 percent and tax evasion rampant, the corporate tax rate in India has now been reduced to 52 percent. Although it is still too early to see dramatic results from industry, the number of applications for new projects has been increasing dramatically and in Mr. Tata's view, this is only the beginning. He anticipates a dramatic upsurge from private industry in the coming months and points to the 65 percent jump in the Indian stock market in the last 6 months as an indication of the optimism in India regarding Gandhi's new policies.

In response to a question as to whether members of the delegation should advise companies in his district to come to India to invest, Mr. Tata responded that he would probably advise the company to go elsewhere if a short-term view were taken. However, if you were to take a longer-term view (i.e., beyond 5 years), there is great opportunity for U.S. investments in India. He maintained that no other country in the world has the potential for growth that exists in India. India has a hugh potential market and the chances for profitability are great. There is political stability in India and the country offers reliability and fairness with no repatriation problems. From 1973 to 1981, according to Tata, India has been the second most profitable country to invest in and on the Indian stock exchange, stock in U.S. companies is selling at 25 times its par value. The biggest problem, and one that requires a good deal of patience, is the bureaucracy that one must face in India and the slowness with which decisions are made and implemented.

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Mr. Tata sees excellent opportunities under the Government's new polices for U.S. companies in high-tech areas such as telecommunications, electronics, computers, informatics and agricultural biochemistry and suggests that collaboration agreements (joint ventures) are the best vehicles for U.S. companies to enter the Indian market.

About half the group visited officers from Citibank Corporation to get some insight into India's development strategies and the nature of private sector involvement. The banking industry, and other industries in India are very positive about India's future economic development, especially since Rajiv Gandhi became Prime Minister. Indications are that Gandhi will continue to encourage private sector involvement and will move India's economy toward market principles.

Also, Citibank officials viewed the new Gandhi regime and its emphasis on the private sector as a shift in policy that would restore confidence in the government by the business community. As a result, more individuals engaged in business would become interested in participating in government and in seeking political office. The competence of the government in the economic/business area would thereby be enhanced and the goals for India's future economic advancement would be more visibly within reach.

The business community is becoming more optimistic about India's development and its own influence within the government and the economy. However, significant barriers to foreign investment or expanded domestic investment remain. Chief among these are the structural barriers of poverty and substandard infrastructure. Also, corruption in government has not been eliminated. Mr. Gibbons and other Members questioned how far new private sector involvement could carry India's economy without first achieving a solution to India's massive poverty. The delegation was encouraged, however, by the new direction of the Indian Government.

The delegation also discussed the role of the business community in the development of India's position in the Reagan Round of multilateral trade negotiations. Although the present position of the Indian Government has been very negative toward these negotiations, the business community could see advantages for India's economy and hoped to influence the Indian Government to take a more positive role.

This same group of the delegation then visited Hinditran, Ltd., an electronics firm, to discuss the development of the electronics industry, in India. Much American-made equipment was in evidence, but the biggest complaint was U.S. export controls that made even the most basic computers and other high-tech equipment difficult to obtain from the United States. Other Western suppliers usually became an alternative source.

Conclusions

Under the leadership of Prime Minister Rajiv Gandhi, significant policy changes have occurred in the direction of economic liberalization and industrial modernization, including a freer flow of foreign investment, technology and goods.

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Although the United States is already India's largest trading partner, it is clear that India wants closer commercial ties with the United States. However, the Indian Government has historically assigned a high priority to a policy of industrial and agricultural import substitution. This, we believe, is a grave mistake. Other issues in Indo-U.S. commercial relations are: a cumbersome import licensing system, high tariffs on a variety of imported products, foreign investment restrictions, and India's opposition to a new round of multilateral trade negotiations.

The delegation expressed strong support to the Indian Government for early implementation of the recently concluded Memorandum of Understanding on Indo-U.S. technology transfer. It is important to note that India's emerging middle class of nearly 100 million people represents an important new market for American business, especially the high technology area. Despite its close relationship with India, the Soviet Union is not in a position to help in the industrial development or transfer of technology to India. As the Japanese move into the Indian market, both the U.S. Government and the business community should take the lead in India's technological and trade development.

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Thailand

Overview

On August 18 and 19, the delegation met with senior representatives of Thai government, industry, and labor, American business representatives, and the American Ambassador and senior embassy staff. The primary focus of concern from the Thai side was the potential impact of the textile quota bill then pending before the Trade Subcommittee.

The delegation in response outlined some of the reasons for the upsurge in pressures for protection in the United States and in the U.S. Congress. The meetings were generally viewed by members of the delegation as providing a useful exchange of views on the trade and economic concerns of both countries. The tone of the meetings was constructive, open, and informative.

United States-Thai Trade Relations

Two-way trade between the United States and Thailand amounted to about $2.4 billion in 1984, with a $381 million surplus in Thailand's favor. U.S. exports in the first 5 months of 1985 fell 15 percent from the same period of 1984, while U.S. imports from Thailand were up 12 percent. As a result, the U.S. trade deficit with Thailand is expected to reach about $600 million in 1985.

On a global basis, however, Thailand's trade and current account balances have been in deficit in recent years. This fact, coupled with Thailand's relatively large foreign debt, has been a source of concern to Thai policymakers. The 15 percent devaluation of the baht in November 1984, the decision to sever the longstanding link between the baht and the dollar, the increase in import duties, and the push for tighter fiscal and monetary policies, all have been part of an effort to improve Thailand's external economic performance.

The United States has emerged as Thailand's largest export market, with about 19 percent of Thailand's exports coming to the United States in 1984. In the first 3 months of 1985, over 36 percent of the growth in Thailand's exports was accounted for by exports to the United States. Because of the importance of the United States as an export market and source of badly needed foreign exchange, Thai Government and industry representatives are deeply concerned over the increased threat of U.S. protectionism.

In the area of investment, the United States is Thailand's second largest foreign investor and accounts for about one-fourth of total private foreign investment in Thailand. U.S. firms have invested over $3 billion in Thailand, nearly half of which has gone toward the development of natural gas deposits in the Gulf of Thailand.

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U.S. MERCHANDISE TRADE WITH THAILAND

[In millions of U.S. dollars]

	U.S. exports	U.S. imports	Balance
1983	906	1,035	−129
1984	1,044	1,426	−382

The principal U.S. exports to Thailand include machinery, mechanical appliances and parts, electrical machinery, chemicals and chemical products, cotton, plastic, scientific instruments, tobacco, and iron and steel. Thailand's principal exports to the United States include integrated circuits, tin, canned pineapple, canned tuna and other fish and shellfish, apparel, and precious stones.

United States-Thai trade relations are generally good, although each country has concerns about certain trade practices or proposals in the other country. The following are outstanding bilateral trade issues:

PRINCIPAL U.S. CONCERNS

1. Thai Tariff Increases

In October 1984 and April 1985, the Royal Thai Government increased tariffs on a wide range of goods, including a number of items of particular importance to U.S. export interests, particularly in the agricultural sector. The approximate doubling of import duties on wheat, the more than 300 percent increase in duties on cotton, and the 10 to 15 percent increase in average tariff levels have been protested by the U.S. Embassy in Bangkok, by the U.S. Trade Representative's office and by the delegation during meetings with Thai officials. The tariff increases were seen as adversely affecting the U.S. export potential not only of wheat and cotton, but also of other agricultural and manufactured goods. Thailand's unilateral action also seem to violate its tariff bindings under the General Agreement on Tariffs and Trade (GATT). Thai officials emphasized that the steps were taken to help deal with Thailand's weakening external accounts, as well as to increase revenues.

During the course of their discussions with Thai Government and industry officials, delegation members—particularly Mr. Anthony—made the point that unilateral tariff increases such as Thailand's affect the climate in the United States on trade matters. When U.S. constituencies and Members of Congress see other nations taking steps that hurt U.S. exports, it becomes more difficult to resist pressures to take similar actions in the United States, particularly in the face of a trade deficit nearing the $150 billion mark. Although Thailand is not a major export market for the United States as a whole, it is an important market in certain products. Moreover, actions taken by many "smaller" countries may not appear significant when viewed individually, but taken together, they can have a cumulative impact.

Apparently in response to the delegation's statements and the Thai textile industry's request, the Royal Thai Government announced October 1 that it had approved a reduction in the tariff on cotton. That action was a positive and welcome step.

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2. Protection of Intellectual Property Rights

Thailand has copyright, trademark, and patent laws. In some cases they are inadequate to protect important U.S. products and in other cases they are not adequately enforced. Thai patent law precludes the patenting of chemical compounds, so that U.S. pharmaceutical products are not covered; infringement therefore is a problem. Due to lax enforcement and low penalties for counterfeiting, piracy of videotapes and computer software is a major copyright problem.

A cooperative effort on the part of the Department of Commerce, the U.S. Embassy in Bangkok, the American Chamber of Commerce in Bangkok, and the Computer Association of Thailand resulted in cosponsorship of a seminar on copyright protection in Bangkok on January 31-February 1, 1985. U.S. attorneys from the Patent and Trademark Office, the Copyright Office, and the private sector spoke on computer software and other copyright issues for one and a half days to an audience of 75 Thai government and private experts. Visits by U.S. experts on patent and tradmark matters are continuing in an effort to encourage reform and tighter enforcement of Thai laws in this area.

PRINCIPAL THAI CONCERNS

1. Textile quota bill

Textile products are Thailand's most important manufactured export and are expected to reach more than $1 billion in 1985. By 1983 the United States had eclipsed Europe as Thailand's largest export market. During the first 5 months of 1985, the United States took 37 percent of Thailand's textile exports. Europe's share fell to 20 percent, while Japan's share remained stagnant at about 2 percent.

The Textile and Apparel Trade Enforcement Act of 1985 (H.R. 1562, Jenkins and others), if enacted into law, would cut back Thailand's exports of textiles and apparel by 64 percent of 1984 levels, according to administration estimates. Thai Government and industry representative have argued strongly that enactment of this legislation would have sharply negative effects on the Thai economy, including extensive job losses, bankruptcies and debt repayment problems. They also argue that the impact of the bill would fall disproportionately on newer, smaller suppliers such as Thailand, and that the bill would violate U.S. commitments under the GATT and the Miltifiber Agreement (MFA). Thai officials expressed their support for the multilateral approach of the MFA.

In a related move, administration officials have been conducting discussions with the Thai government in response to Thailand's overshipment of apparel products under the bilateral textile agreement negotiated as part of the MFA. The overshipment was met with a U.S. embargo on imports of textile and apparel products from Thailand. On November 10, 1985, the Administration completed negotiations with Thailand on a new agreement and lifted the embargo.

Other sectoral issues figured less prominently in the delegation's discussions with Thai officials. However, an aide-memoire prepared

by the government and presented to the delegation noted the following concerns. (See Appendix R)

2. *Canned tuna.*—Thailand expressed concern about past and present legislative proposals to increase U.S. import duties and past attempts by the U.S. industry to restrict imports of canned tuna. However, the ITC found in August 1984 that imports were not a substantial cause of injury to U.S. tuna fishermen and canners, thus precluding relief under the industry's "escape clause" case brought under section 201 of the Trade Act of 1974; and legislation affecting tuna imports has never passed. In addition, despite Thailand's concerns about U.S. protectionist sentiment toward tuna imports, it must be noted that the United States absorbed 72 percent of Thailand's exports of canned tuna in 1984.

3. *U.S. countervailing duty and antidumping investigations.*—Thai exports of textiles, tuna, circular welded carbon steel pipes and tubes, and most recently rice have been the subject of countervailing duty or antidumping investigations. Thai officials claim such actions single out Thai exports unfairly.

It is the U.S. view, however, that U.S. countervailing duty and antidumping statutes are consistent with U.S. GATT obligations, are not governed by foreign policy considerations, and are in place to enforce U.S. trade rights according to internationally agreed standards. Further, no attempt is made in the administration to single out imports from any one source.

4. *Footwear import restrictions.*—The Thai Government expressed its hope that restrictions would not be placed on U.S. imports of footwear, as recommended by the International Trade Commission in the case brought by the U.S. footwear industry under Section 201 of the Trade Act of 1974 ("escape clause").

The President rejected the ITC recommendation for relief on August 28, 1985.

5. *Agriculture.*—Thailand is concerned that the U.S. Bonus Incentive Commodity Export Programs (BICEPS), aimed at countering subsidized EC agricultural exports, may displace Thai agricultural exports. Other programs, such as P.L. 480, the Payment-in-Kind program (PIK), and the International Development and Food Assistance Act of 1975, are regarded by the Thai Government as subsidies or unfair trade practices which should be addressed during a new round of multilateral trade negotiations.

The delegation notes past and present U.S. efforts to achieve international agreement on tighter discipline in international trade in agriculture and would support attempts to address this question in a new round of trade negotiations.

The Royal Government of Thailand also expressed concern about the negative effect of reduced U.S. sugar quotas on Thailand's industry. The delegation simply notes that the administration must allocate quotas on the basis of U.S. law and with a view to ensuring equitable treatment among all suppliers.

6. *Generalized System of Preferences (GSP).*—Thailand is hopeful that the new U.S. GSP program, which was amended and extended by the Trade and Tariff Act of 1984, will be flexibly administered in a manner "consistent with the developmental goals and objectives of beneficiary countries".

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While the new GSP provisions calling for observance of worker rights and U.S. intellectual property rights, among other things, may seem somewhat onerous to beneficiary countries, those provisions were approved by the U.S. Congress and the President to deal with issues of concern to a growing body of opinion in the United States. For example, it does not seem equitable or justifiable that beneficiary countries' developmental progress should be achieved at the expense of U.S. firms whose profitability may be seriously undermined by foreign copyright or patent violations.

Highlights of Meetings With Thai Officials

While in Thailand, the delegation met with Prime Minister Prem Tinsulanonda; Foreign Minister Siddhi Savetsila; other senior representatives of the Thai Government, Parliament, and industry; the vice president of the Thai Trade Union Congress, Mr. Ekachai Ekharnkamol; representatives of the American Chamber of Commerce in Thailand; and Ambassador William Brown and senior embassy staff. While in Thailand, the delegation also met with senior representatives of the Association of Southeast Asian Nations (ASEAN).

Meeting With Prime Minister Prem Tinsulanonda

Prime Minister Prem opened the meeting by welcoming the delegation and expressing his hope that the visit would be productive and reinforce the already good bilateral relations. Subsequent discussion focused on the textile quota bill, Thailand's efforts to deal with refugees from Kampuchea [formerly Cambodia], military pressures on the Thai-Vietnamese border, and Thailand's recent tariff increases.

Members expressed their recognition of and appreciation for the longstanding friendship and cooperation between the United States and Thailand. Thailand and ASEAN are sources of dynamic growth and are U.S. partners in the Pacific. U.S. relations with Thailand and other Asia-Pacific countries will continue to grow and prosper in the future. The United States wants to build greater security and friendship and earn its way in the region through trade and other means. Members said that the strong ties will help us solve any problems as friends and intelligent people.

Turning to textiles, Members said they knew that Thai officials were disturbed by the quota bill, as were some of the delegation Members. Pressures for that bill have stemmed in part from years of frustration—not with Thailand, but with the fact that the United States is carrying so much of the economic burden of the world. The trade deficit is in part a reflection of that fact. Much of the U.S. trade deficit is our own fault, some of the Members noted, but the United States nonetheless needs help in the form of greater openness of foreign markets. A number of the Members noted the unilateral trade actions taken by Thailand in late 1984 and 1985. They said that even though those measures had apparently not been intended to hurt U.S. exports, the United States would appreciate being consulted in the future on such measures before they are taken. Mr. Anthony pointed out that Thailand's actions had been taken on a number of important export products from his dis-

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trict, including cotton, soybeans, wheat, and rice. He added that his constituents increasingly were pressing for reciprocity in trade, as they saw their exports declining and imports of other products increasing.

The Prime Minister indicated his willingness to reconsider some of the measures taken, particularly if that would help Members respond to constituent concerns. [The Thai Government later announced that it was reducing the duty on cotton and would review other measures.] He then noted two serious concerns of his government—the war in Kampuchea and the heavy flow of refugees into Thailand, and the pressure from Vietnamese troops on Thailand's border. Thailand is doing what it believes is the right thing toward Kampuchean refugees, out of a humanitarian concern—maintaining refugee centers for their resettlement either in Thailand or elsewhere. As to the military pressure from Vietnam, Thailand is doing its best to combat it. Both of those efforts are costly, however, and are not only in Thailand's interests but in the interests of the world community at large. Thailand needs not only funds but great moral support from countries like the United States. Thailand has been taking steps to restructure its economy and improve Thailand's deteriorating external accounts. But Thailand cannot continue simply cutting its budget; it also must be able to earn money through exports and investment. The United States must be strong enough to bear its current burden; otherwise, Thailand's efforts will be fruitless.

Chairman Gibbons responded by expressing regret that U.S. domestic problems are placing such a burden on Thailand and noting the delegation's appreciation for the Prime Minister's willingness to reconsider the recent tariff increases. He also noted the delegation's message to Japan that it should absorb more of the world's exports, including those from developing countries. He concluded with a note of optimism that the textile issue could be worked out and of hope that the United States and Thailand then could focus on the future and on ways to build an even stronger relationship.

MEETING WITH FOREIGN MINISTER SIDDHI SAVETSILA

Foreign Minister Siddhi Savetsila opened the meeting by saying that in light of the delegation's statements at a meeting earlier that day with representatives of Thailand's government, industry and Parliament, the Cabinet had agreed to reconsider earlier tariff increases on soybeans and cotton. [Following the delegation's return to Washington, the Thai Cabinet agreed to lower the duty on cotton.]

Members expressed appreciation for Thailand's role as a front-line state against Communist aggression in Southeast Asia, noting that armed forces across Thailand's border are a destabilizing factor and pose a great threat. They noted that the textile quota bill probably would pass the House and Senate and be vetoed by the President. They expressed the hope that bilateral trade problems could be worked out in a spirit of cooperation, and noted that export difficulties which both countries faced with Japan was a common problem which needed to be addressed. In this regard, delegation members again noted the strong growth in Thai textile and

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apparel exports to the United States and the slight decline in exports of those products to Japan. Delegation members also noted the threat to U.S. economic well-being posed by the huge budget deficit and said that a collapse of the U.S. economy would mean a collapse of the Thai economy as well. The United States must look out after its own interests for the sake of the world—even though at times those interests may seem contradictory.

Foreign Minister Siddhi replied that the past year had been a particularly difficult one in terms of security, as delegation members had noted. He expressed appreciation for the United States as a great ally. As for protectionist pressures in the United States, the Foreign Minister repeated a message he had given to Secretary of State Shultz during his recent visit to Thailand—that protectionism will mean the end of world prosperity; for that reason, he hopes for recovery of the U.S. economy and an easing of protectionist sentiment. He concluded the meeting by saying that it would be a healthy sign of cooperation to see increasing ties between the Association of Southeast Asian Nations (ASEAN), the United States, Japan, the People's Republic of China, and all Pacific countries. He looked forward to a future of such cooperation.

MEETING WITH REPRESENTATIVES OF THE ROYAL GOVERNMENT OF THAILAND, THE THAILAND NATIONAL ASSEMBLY, AND THE THAI PRIVATE SECTOR

The delegation participated in a lengthy working session with senior representatives of two branches of the Royal Government of Thailand, the Thailand National Assembly, and the Thai private sector. A complete list of the Thai participants appears in Appendix V.

Foreign Minister Siddhi Savetsila opened the session with general welcoming remarks, the full text of which appears in Appendix Q. He then turned the meeting over to the Deputy Minister of Industry, Dr. Chirayu Isarangkun Na Ayuthaya. Dr. Chirayu referred the delegation to an aide-memoire prepared for the meeting as a complete outline of issues of concern to the Thai participants. (See Appendix R.) Dr. Chirayu indicated that the aide-memoire was intended as a supplement to comments made during the meeting.

Lengthy discussion followed, with Thai concerns directed primarily at the textile quota bill. Delegation comments were directed variously at reasons for the upsurge in U.S. protectionist sentiment; the importance of a commitment to free trade in Thailand, in recognition of trade as a two-way proposition; and U.S. appreciation of the role that Thailand has played in political and security matters in Southeast Asia.

Dr. Chirayu focused his remarks on Thailand's emergence from World War II as a country with a poor economy and rapid population growth. The decision made then—to pursue democracy and a free private sector in lieu of totalitarianism—has stood the test of time, including the stresses brought on by the Vietnam War and the fall of Cambodia. The Thai people were convinced of the wisdom of the two-pronged approach of simultaneous political and economic development.

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Dr. Chirayu said that Thailand now is in danger of losing what it has built, however, due to the negative effect of depressed commodity prices on Thailand's agricultural sector (the country's largest production sector) and the threat posed by the textile bill. If enacted, the textile bill would affect hundreds of thousands of people in Thailand. According to Dr. Chirayu, the average Thai view was that: (1) the proposed bill falls heavily on Thailand, while exempting larger, weathier exporting nations from such deep cuts, and (2) it is almost inconceivable that the leader of the Free World would take such a step against a friend and ally.

Dr. Chirayu added that the Thais do not believe the United States should absorb the entire burden posed by the growth in trade of textiles and apparel. He said that an alternative to unilateral protectionism is the multilateral approach—a new Multifiber Arrangement (MFA), a new round of multilateral trade negotiations, or some other approach. By creating a fair trade regime, everyone's problems can be taken care of. Unilateralism will prompt more of the same, to no one's benefit. The Thai side is willing to cooperate in finding an alternative to unilateralism. Dr. Chirayu said he hoped the delegation would bear in mind Thailand's friendship and its role as a frontline state as it deliberates the textile bill. Other Thai speakers reiterated Dr. Chirayu's comments throughout the meeting.

Members of the delegation responded with a reaffirmation of U.S. appreciation of the role Thailand has played in cooperation with the United States in Southeast Asia and of Thailand's friendship throughout the years. They pointed to the dynanism of Southeast Asia and expressed a desire for the United States to share in the region's growth and development.

Delegation members also explained why pressures for protectionism had grown so dramatically in the United States. A number of reasons were given. Deterioration in the U.S. merchandise trade account had affected every congressional district, which has led to a twin problem of political *and* economic pressures. While this deterioration is largely of our own making, Americans nonetheless are frustrated by what they view as a double standard—the U.S. market has remained relatively open in the face of growing trade pressures, while other markets, including those of relatively successful advanced developing countries, remain relatively closed. The United States is being heavily criticized as pursuing unilateral protectionism for a bill which is merely *pending* (the textile quota bill), while Thailand in 1984 and 1985 actually *adopted* measures which affect some important U.S. export interests (e.g., cotton, soybeans, tobacco, wheat, rice, and other products). Thailand's actions were taken unilaterally and without prior consultation with the United States. While the actions were taken in order to deal with Thailand's external imbalances, and the intention was not to hurt U.S. export interests, that nonetheless may be the effect. Free trade and multilateralism must be a commitment shared by all sides; otherwise they will erode. The United States has finally reached the point at which its engine has run out of steam and it cannot continue to pull. Other countries such as Thailand must be tolerant; we all need to solve our problems without hurting each other. Reference was made to Japan as a country which is not car-

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rying its share of the burdens afflicting the world trade system today.

Thai representatives, including Mr. Nibhat Bhukkanasut of the Ministry of Finance, replied that they understood the pressures confronting the United States. However, Mr. Nibhat pointed out that Thailand's balance of payments deficit had reached about seven percent of gross domestic product and had to be dealt with. Tariff increases and a variety of restructuring programs had been undertaken, and one no-confidence debate already had been initiated against the Finance Minister; but the only way to solve Thailand's problems is through measures such as these. Mr. Nibhat added that the tariff increases were not discriminatory and noted that 70 percent of all wheat consumed in Thailand comes from the United States, as does a large portion of its cotton. He said that Thailand was prepared to review the tariff increases if they proved injurious to Thailand's major trading partners, including the United States.

Several members stressed that the goal shared by all in the room was to work together to solve our problems. Thailand is wise to try to get its financial problems under control before they become unmanageable. The United States must do the same thing and eliminate the source of many of its current problems.

Dr. Chirayu and Chairman Gibbons closed the meeting by agreeing that the session had been very useful and had contributed to a better understanding on both sides. The United States and Thailand have a long history of cooperation and friendship, which should be strengthened and deepened. Chairman Gibbons concluded by saying that if all nations can trade freely, the world's standard of living will rise, and that will contribute to peaceful coexistence among all nations.

LUNCHEON WITH THE BOARD OF TRADE OF THAILAND

The Board of Trade of Thailand hosted a working luncheon for the delegation. At the luncheon were senior representatives of the Board of Trade and other key business associations. The luncheon was held at the Santi Maitree Building, which is part of the Government House—the official residence of the Prime Minister. The luncheon in honor of the delegation marked the first time that Government House facilities had been made available to a private group for any similar purpose, according to representatives of the Board of Trade.

Board of Trade President Somphob Sussangkarn focused his remarks on the importance of economic and moral support from the United States and other friendly powers in Thailand's past and continuing role as a frontline state against Communist aggression in Southeast Asia. Political and economic stability is the key to Thailand's ability to play such a role; and earnings from exports are an important source of income which contributes to that stability. Mr. Somphob outlined Thailand's efforts to diversify its export base from agricultural products to light manufacturers, including textiles and apparel, leather goods and footwear, and canned tuna. Thailand's export successes in these goods have been met increasingly with efforts by importing countries to restrict imports. In this

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regard, he mentioned U.S. countervailing duty and antidumping cases and the Textile and Apparel Trade Enforcement Act. He expressed the view that enactment of the textile bill, which would substantially cut Thailand's exports, would cause high unemployment and sharply reduce export earnings, thereby weakening Thailand's ability to resist enemy infiltration. This in turn, would undermine Thailand's security and stability. Because other Southeast Asian countries would be subject to similar cutbacks in exports, enactment of the bill could compromise the peace and stability of much of Southeast Asia. Mr. Somphob concluded by saying that the most serious result of the bill's enactment would be a loss of faith in America by countries in the region, with a similar loss of U.S. political dignity and influence in its efforts to maintain the balance of power in Southeast Asia.

Mr. Pease responded on behalf of the delegation. He noted how much the United States and Thailand have in common, from political and security concerns to our commitment to free trade. In light of Thailand's great assistance in the Korean War, the Vietnam War, and in current problems involving Kampuchea, the Thai people must be puzzled over why the United States seems to be singling them out in the textile bill. Mr. Pease said that the bill's heavy focus on Southeast Asian countries was not a conscious goal but was the result of many efforts at drafting the bill. The bill's supporters bear no ill will toward Thailand; they were responding to serious conditions among their own constituents.

Mr. Pease noted that other countries which the delegation visited on this trip pointed to their special relationship with the United States and argued that they too should be exempted from the textile bill's coverage. However, Mr. Pease continued, each small supplier begins to add up. He said if the bill's opponents were to be able to moderate or defeat the bill, they must have something to tell their constituents. The delegation's trip to Thailand has been very helpful from the point of view of learning that Thailand has a dynamic economy and is a true friend of the United States. It would be helpful if in the future we also could say that Thailand and other affected countries have a genuine commitment to open markets and to the protection of intellectual property rights. We also need help in dealing with the common problem of Japan. Mr. Pease noted that Thailand's exports to the United States have increased about 400 percent over four years, while Thai exports to Japan fell during the same period.

Mr. Pease concluded by saying that the delegation recognized the very serious consequences of protectionist legislation, but added that the delegation was not necessarily reflective of Congress as a whole. However, he and others in the delegation would do what they could to head off protectionist legislation.

MEETING WITH THE THAI TRADE UNION CONGRESS

Four delegation members and Ambassador Brown met with the Vice President of the Thai Trade Union Congress (TTUC), Mr. Ekkachai Ekharnkamol. The four members were Chairman Gibbons, Mr. Pickle, Mr. Pease, and Mr. Frenzel. Discussion focused solely on the textile quota bill.

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Mr. Ekkachai's message was the same as that conveyed by other Thai spokesmen during their meetings with the delegation. Enactment of the textile bill will cause serious disruption to Thai textile workers, none of whom have any cushion such as unemployment insurance in the event of job losses. Thailand's role as a buffer state between the Free World and communism and its absorption of large numbers of refugees from Kampuchea are problems which require U.S. understanding and support, as the leader of the Free World. Mr. Ekkachai stressed that the U.S.-Thai agreement under the Multifiber Arrangement (MFA) provides for negotiations in the event of trends which might cause market disruption. He urged the United States to rely on that mechanism.

The delegation members present responded with generally sympathic remarks, and noted that none of them supported the bill. They expressed concern over the best way to handle the bill in the hope that it not become law, but noted the strong support which the bill had attracted. The members said they expected the bill would be approved by the House and Senate and be vetoed by the President; the question then would be whether the bill's supporters could muster sufficient votes to override the President's veto. A veto override in the Senate does not appear likely; prospects in the House are less clear.

Members of the delegation explained the political difficulties caused by a trade deficit of nearly $150 billion, pointing to estimates that each $1 billion of the deficit translates into 25,000 jobs lost. Delegation members advised Mr. Ekkachai to voice the Trade Union's concerns to labor groups in the United States—particularly the AFL-CIO, which is a leading supporter of the bill—and to Members of Congress with large labor constituencies. Those groups might be more receptive to concerns expressed by another country's union representatives than they would be to similar concerns expressed by that country's mill owners or its government. Delegation members also noted the Ambassador's expressed willingness to meet with Mr. Ekkachai.

The members closed the meeting by expressing their appreciation for the warm and very orderly greeting by textile workers upon the delegation's arrival. They said that although the few members at the meeting and others of like mind do not constitute a majority in the Congress, they nonetheless would work to defeat the textile bill. They urged Mr. Ekkachai to have hope that this bilateral trade problem could be overcome.

AMERICAN CHAMBER OF COMMERCE IN THAILAND

The delegation held a working breakfast with representatives of the American Chamber of Commerce in Thailand. Three major concerns were raised by the business representatives, all of which related to U.S. laws or proposals: the lack of a double tax treaty; the Foreign Corrupt Practices Act; and the textile quota bill.

Business representatives said the lack of a double tax treaty impedes their business efforts, particularly when they are in competition with firms from countries *with* a double tax treaty with Thailand, such as Japan.

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As to the Foreign Corrupt Practices Act, the vagueness of the act and the fact that the United States is the only country with such a law were cited as significant impediments to U.S. business activities. The law's standard of "reason to know" of possible wrongdoing is too stringent and should be amended to a looser standard of "know", "directed", or "authorized". The accounting standards in the law also were viewed as being too tough.

The textile quota bill was seen by business representatives as likely to have very negative effects on Thailand if enacted into law. It would sharply reduce Thailand's textile exports and foreign exchange earnings, even though Thailand accounts for less than two percent of U.S. imports. Deterioration in the Thai economy would retard progress toward democratization. They feared that its enactment would adversely affect the U.S. standing in the world—particularly in Asia—due to its discriminatory aspects; might trigger a trade war; and would impair political and security relations in Asia. The business spokesmen urged the Members to consider alternatives such as the Multifiber Arrangement (MFA) or a new round of trade negotiations. They felt those options would allow U.S. concerns to be addressed while at the same time gaining improved market access for U.S. goods.

In response, Members noted that the tax treaty is an issue which is handled by the Senate, and while the Ways and Means Committee could try to review the problem through its oversight responsibilities, having a significant impact can be tough.

Members were generally sympathetic with the problems posed by the Foreign Corrupt Practices Act, but they noted again that the issue falls outside the Committee's jurisdiction. As a result, their influence is limited.

In response to concerns about enactment of the textile quota bill, some Members expressed a shared concern about the potentially negative effects of its enactment but pointed out that the U.S. textile and apparel industry, like other industries, has a real problem. They expressed their desire to build up U.S. credibility in Asia, not destroy it; but finding a solution to the current problem would not be easy. Other Members noted that while Thailand is criticizing the United States for its protectionism and unilateralism in relation to the textile bill, that bill is only *pending* in Committee. Yet Thailand has actually *acted* in unilateral fashion to raise tariffs on and limit imports of important U.S. exports, particularly agricultural products. As Members elected to serve constituents, it is difficult to tell constituents to be supportive of free trade when they see other countries taking actions which hurt their exports.

BRIEFING BY AMBASSADOR BROWN

On Sunday, August 18, Ambassador William A. Brown briefed the delegation on a wide range of issues involving Thailand's relations with the United States and its neighboring countries in Southeast Asia. The oral briefing, coupled with comprehensive written material prepared by Embassy staff, served as excellent preparation for the delegation's subsequent meetings with Thai government, industry, and labor leaders.

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The Ambassador focused his remarks broadly on Thailand's political and security concerns arising from years of instability in Southeast Asia. The two biggest problems now facing Thailand are the continuing influx of refugees from neighboring Kampuchea and the instability posed by Vietnam's military activities in the region. The Ambassador praised the role which Thailand has played and continues to play in these issues of importance not only to Thailand but to the United States and other countries as well.

The Ambassador then provided an overview of bilateral trade matters. He outlined the major issues of concern to Thailand—primarily textiles—and issues of concern to the United States, including Thailand's recent tariff increases and problems of intellectual property rights protection.

Conclusions

The delegation departed Thailand with a renewed appreciation of the commitment of the Thai Government and the Thai people to close and strong ties with the United States. Thailand has played an important role in regional issues of concern to the United States, including its past assistance in the Korean War and the Vietnam War and its continuing major role in the absorption and relocation of refugees from Kampuchea, while at the same time dealing with the buildup of Vietnamese troops on its border.

Thai officials impressed upon the delegation the close linkage between the issue of U.S. protectionism and the economic and political stability of a country such as Thailand. The major focus of Thai concerns was the textile quota bill. If enacted into law, the quotas would case an estimated 64 percent cut in Thailand's major manufactured export to the United States. Such a sharp cutback could have serious adverse effects not only on Thailand's textile and apparel industry and related employment but on Thailand's economy as a whole.

While recognizing Thai officials' grave concerns over protectionist pressures in the United States, delegation members stressed that the commitment to free trade must be two-way. While actions that Thailand takes in the trade area may not seem significant if viewed in isolation, if taken together with trade barriers imposed by many other smaller U.S. trading partners, the significance of those actions grows tremendously.

The delegation welcomed the news following its return from Thailand that the Thai Cabinet had ordered a reduction in the high tariff on cotton and would give consideration to other U.S. requests for changes in certain tariffs and trade practices.

The delegation agreed that its meetings in Thailand were constructive and promoted increased understanding among both U.S. and Thai participants of their common interests and shared problems.

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Association of Southeast Asian Nations (ASEAN)

Overview

While in Thailand, the delegation also met with representatives of the Association of Southeast Asian nations (ASEAN), many of whom had travelled from their capitals to attend the meeting. According to the ASEAN participants, the meeting was the first of its kind between a U.S. Congressional delegation and representatives of each member country of ASEAN. Present at the meeting were representatives from all six member countries: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.

In light of the growing importance of U.S.-ASEAN political and economic ties, and the growing importance of ASEAN countries as a dynamic center of economic growth and development, the delegation welcomed the meeting as an opportunity to exchange views on issues of mutual concern. Members of the delegation felt the meeting served the useful purpose of giving all participants a better understanding of the domestic pressures confronting policymakers in their home countries and of the shared desire to build stronger ties between the United States and countries of the Asia-Pacific region.

U.S.-ASEAN Trade Relations

The ASEAN countries collectively are the fifth largest trading partner of the United States, with two-way trade exceeding $26 billion in 1984. ASEAN countries also are an increasingly important site for U.S. investment, which grew 26 percent in 1984 to total about $10 billion. This figure represents more than a two-fold increase in U.S. investment levels since 1980.

The increase in two-way trade with ASEAN countries has been a natural result of the dynamic economic growth rates of those countries in recent years. During the 1970's, real economic growth in the region ranged between 6 and 9 percent. Although growth rates slowed in the early 1980's—in some cases substantially—most economies in the region have begun to recover from that trough. Exports to the United States have played a significant role in the recent strengthening of ASEAN economies; the improvement of ASEAN's trade balance with the United States accounted for about 30 percent of ASEAN countries' GNP growth in 1984. Table I summarizes recent U.S. trade with ASEAN countries.

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TABLE I.—U.S. MERCHANDISE TRADE BALANCE WITH ASEAN COUNTRIES

[In millions of U.S. dollars]

	1982	1983	1984
Brunei:			
U.S. exports	79	58	34
U.S. imports	219	20	11
U.S. balance	−140	38	23
Indonesia:			
U.S. exports	1,944	1,446	1,193
U.S. imports	4,509	5,657	5,867
U.S. balance	−2,565	−4,211	−4,674
Malaysia:			
U.S. exports	1,711	1,678	1,827
U.S. imports	1,959	2,205	2,825
U.S. balance	−248	−527	−998
Philippines:			
U.S. exports	1,835	1,793	1,709
U.S. imports	1,956	2,159	2,622
U.S. balance	−121	−366	−913
Singapore:			
U.S. exports	3,170	3,686	3,631
U.S. imports	2,274	2,969	4,121
U.S. balance	896	717	−489
Thailand:			
U.S. exports	862	906	1,044
U.S. imports	956	1,035	1,426
U.S. balance	−95	−129	−382
ASEAN total:			
U.S. exports	9,600	9,567	9,439
U.S. imports	11,872	14,045	16,872
U.S. balance	−2,272	−4,479	−7,433

Source: U.S. State Department.

Overall economic relations with ASEAN countries are quite good, although certain problem areas do exist. ASEAN countries are concerned about what they see as growing protection in the United States. Given the importance of the U.S. market, U.S. restrictions on their exports could strike a serious blow not only to specific industries but to overall prospects for economic growth in ASEAN countries as well. U.S. exporters, on the other hand, have expressed concern about some of the trade practices of ASEAN countries, with complaints running the gamut from selectively high tariffs to restrictions on services and investment, quantitative restrictions, import licensing problems, and inadequate protection of intellectual property rights.

Highlights of Meetings with ASEAN Officials

The delegation met with senior representatives from the six countries of the Association of Southeast Asian Nations (ASEAN): Brunei; Indonesia, Malaysia, Philippines, Singapore, and Thailand. Many of the ASEAN officials travelled from their capitals to participate in the meeting with the delegation. Delegation members greatly appreciated the time and effort that these officials expended in order to attend the meeting. The Members felt that the strong representation fielded by each ASEAN country contributed greatly to the success of the meeting.

Dr. Chirayu Isarangkun Na Ayuthaya, Thailand's Deputy Minister of Industry and Chairman of the ASEAN delegation, opened the meeting and extended general welcoming remarks. He then in-

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troduced Mr. Peter Chan, Singapore's Second Permanent Secretary in the Ministry of Foreign Affairs and head of the Singapore delegation, who gave an overview of trade and economic relations between the United States and ASEAN.

Mr. Chan stressed the commitment of ASEAN countries to the free enterprise system and open world markets. He noted the large collective population of ASEAN (about 250 million), its vigorous economic growth, its importance as a market in the Asia-Pacific region, and the strong growth in two-way trade with the United States.

On the political and security front, Mr. Chan noted the crucial role that ASEAN plays in the strategic interests of the United States. The United States and ASEAN countries have common political and security interests in the region, making it essential that we cooperate closely on all fronts.

Mr. Chan indicated that ASEAN countries had been early supporters of a new round of multilateral trade negotiations (MTN) and had been playing an active role in building additional support among developing countries for a new MTN. He added that it is in the best interests of the United States and ASEAN to cooperate in ensuring a successful new round.

Turning to bilateral trade relations, Mr. Chan expressed ASEAN representatives' apprehension over growing protectionist sentiment in the United States, including both legislative and administrative measures then under consideration. As developing countries, he noted that ASEAN members are particularly vulnerable to U.S. protectionism and indicated that protectionism could have political and security repercussions.

Mr. Chan focused particular attention on the Textile and Apparel Trade Enforcement Act of 1985 (H.R. 1562, Jenkins and others). He noted ASEAN countries' grave concern over the deep cuts in exports which would result from the bill's enactment, with the potential for causing signficant harm to ASEAN income, employment, and foreign exchange earnings. Mr. Chan said the legislation is contrary to the spirit of free trade and the launching of a new round of trade negotiations; is discriminatory in its exclusion of selected textile exporters; violates provisions of the Multi-Fiber Arrangement (MFA); and will undo the U.S. strategy of promoting growth in friendly developing countries. Mr. Chan emphasized ASEAN's willingness to work with the United States in the multilateral framework of the MFA, in order to meet U.S. concerns and yet provide for orderly and equitable trade in textiles and apparel.

Mr. Chan concluded his remarks by noting the growing strength of U.S.-ASEAN relations and our common goals and ideals in economic, political, and security issues. These considerations should enhance our ability to resolve any bilateral economic differences. We should work more closely together to find solutions to the fundamental problems now facing the world economy.

Chairman Gibbons thanked Mr. Chan for his remarks and expressed the delegation's great appreciation to him and other participants who had travelled so far to take part in the meeting. He also thanked former Member of Congress Lester Wolff for his role in helping arrange the meeting. Mr. Gibbons noted the importance of ASEAN and indicated that it was because the delegation recog-

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nized ASEAN's role in the region that the delegation had been so keenly interested in meeting with ASEAN representatives. He expressed an interest in discussing ways to solve our broader problems, noting as an example the growing interaction between the international trade and financial systems. The delegation, he noted, comes seeking greater cooperation and understanding between the United States and ASEAN and encourages continuing efforts to strengthen ASEAN from within.

Dr. Chirayu of Thailand summarized for ASEAN participants the discussion which had taken place earlier that morning between the delegation and Thai industry and government representatives. He then turned to other ASEAN representatives for their comments.

Mr. Chan reiterated Singapore's concern over the pending textile quota bill as a violation of the most-favored-nation principle and of the MFA. He noted his concern over possible social and political instability if the bill becomes law; said the bill would hurt U.S. interests in Southeast Asia, since that was the region that would be hardest hit by quotas; and concluded that both sides should support free trade.

Mr. Chong Ngian Yet, Malaysia's Deputy Director of the International Trade Division in the Ministry of Trade and Industry, reiterated ASEAN support for a new MTN. Much remains to be done in a new round, including the unfulfilled commitments of the Tokyo Round.

Mr. Ridzwan Dzafir, from Singapore, Chairman of the ASEAN Committee on Trade and Tourism, also expressed support for a new MTN. A new round would address, among other things, issues of concern to the United States, including services, investment, and intellectual property rights protection.

Mr. Gibbons replied that the International Monetary Fund (IMF) should be brought into any new round of trade talks, given the adverse impact that international financial developments have had on trade. He noted the pressure on debtor countries to cut back imports and expand exports and wondered whether supporting the current international financial system was worth the growing costs.

Mr. Chan of Singapore replied that IMF programs were particularly significant in Latin America. There is a natural dilemma which debtor countries face; if they cannot export, they cannot pay their debt. ASEAN countries are not yet in this vicious cycle; but with the downturn in world commodity prices and uncertainty in the overall international economic situation, ASEAN governments have cut back on infrastructure development. This cutback, in turn, adversely affects demand for imports of capital goods and other products from the United States and other countries.

Congressman Jones asked about ASEAN's position on a new round of international monetary discussions and about ASEAN's view on a target zone approach to exchange rate management. He added that there was no clear consensus on this issue in the United States but noted that trade and monetary issues are closely linked. U.S. protectionism is strengthened by the dollar's strength. Mr. Jones urged ASEAN representatives to focus on this issue.

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Dr. Chirayu replied that ASEAN had no firm position on the issue but commented that perhaps there should be a comprehensive approach, with the IMF as part of the solution. Mr. Chan indicated that ASEAN is officially supporting the Reagan Administration's position in opposition to a linkage between trade and monetary discussions.

Mr. Gibbons said it is clear that trade is no longer driving the value of the dollar; the IMF is urging debtor countries to cut imports and increase exports; and the United States has one of the world's most open markets while others remained closed in many areas. This situation cannot be sustained politically, particularly since each $1 billion of the U.S. trade deficit leads to an estimated loss of 25,000 jobs. The delegation did not come to cast blame, but to seek consultation on the problem and develop a mutually beneficial solution. ASEAN has vast potential, and the delegation wants to improve relations. Mr. Gibbons invited additional comments from ASEAN participants.

Lieutenant General Rafael M. Ileto, Philippines' Ambassador to Thailand, expressed concern over the then-pending import relief case on footwear. He urged that ASEAN countries be exempted from any quotas which might be imposed. (President Reagan later denied relief to the U.S. footwear industry.)

Mr. Danai Tulalamba, Ambassador-at-large in Thailand's Ministry of Foreign Affairs, noted that the world economy is in bad shape. The appropriate solution to current problems is the multilateral approach suggested by ASEAN countries. ASEAN already has expressed support for a new round of trade negotiations, which should include issues of interest to all countries. He then addressed the textile quota bill. All ASEAN countries have bilateral textile agreements with the United States, except Brunei which does not export textiles. Mr. Danai said he believed that ASEAN countries had responded positively to all "calls" for consultations. [The MFA allows importing countries to call for consultations to negotiate quotas when imports of a particular product disrupt the market.] He said ASEAN would appreciate the same degree of U.S. commitment to those agreements, even though the MFA admittedly is not perfect. ASEAN countries are prepared to consider changes in the MFA to solve the problem. He reiterated ASEAN support for consultations and cooperation.

Congressman Frenzel took note of the strong expression of support for the multilateral approach. He suggested that ASEAN countries impress upon the Reagan administration the fact that ASEAN is supporting the MFA and a new round of trade negotiations. In other words, provide ASEAN leadership in these areas, even if other countries are not yet supportive of those goals. He added that a Presidential veto is the key to the textile quota bill. The Administration needs to be armed with the knowledge that ASEAN is willing to work for the MFA and a new MTN. In addition, ASEAN countries should seek more support for their position from U.S. importers.

Dr. Chirayu concluded ASEAN remarks by noting ASEAN's shared vision of increased cooperation among Pacific Basin countries. He expressed appreciation for the fact that the delegation also shared that goal and indicated that perhaps a more permanent

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forum for discussion between ASEAN countries and the U.S. Congress could be established.

Chairman Gibbons closed the meeting by thanking all participants for their comments. He said the United States wants to earn its way in the region by cooperating with ASEAN countries.

Conclusions

The United States recognizes the importance of its growing relationships with other Pacific nations to its overall economic, political, and security interests. As a Pacific nation itself, the United States seeks at many levels to strengthen and deepen its interactions with other regional countries. This interest in greater regional cooperation is shared by many Pacific nations, including ASEAN. Continued cooperation and the maintenance of open, competitive markets in the region will reduce trade friction, increase economic growth, and foster stronger overall relationships.

The Association of Southeast Asian Nations plays an important role in promoting closer ties between member countries. ASEAN also serves as a useful forum for increased cooperation and consultation between the United States and ASEAN countries. The delegation applauds the progress that ASEAN has made in this regard. The delegation also supports continued close relations between the United States and ASEAN, which could be fostered through such mechanisms as the ASEAN-U.S. Dialogue and future meetings between ASEAN representatives and Congressional delegations.

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Hong Kong

Overview

The delegation visited Hong Kong on August 20 and 21. Hong Kong is considered by many to be one of the United States' most significant trading partners, in light of its complete adherence to free market principles and lack of any trade restrictions. Hong Kong imposes no import duties, and no restrictions on imports. It serves as a shining example of the potential of free enterprise and open markets.

In addition to its significance as an open trading market, Hong Kong is also the world's third largest financial center, after New York and London. It welcomes foreign investment, and provides for free flow of capital and of return on investment without exchange controls.

The strength of Hong Kong's present economic performance is in part a reflection of its conditions of foreign trade and investment. In 1984 real gross domestic product (GDP) grew by 9.6 percent, primarily a result of increased exports to major markets, especially the United States. Hong Kong's exports grew by 23 percent in U.S. dollar terms. Its unemployment rate, meanwhile, declined to 3.8 percent, which is considered the equivalent of full employment. Inflation declined from 9.9 percent in 1983 to 8.1 percent in 1984.

In addition to increases in its domestic exports, Hong Kong is becoming increasingly important as an entrepot for trade between China and the rest of the world, serving as the hub for sea, land, and air transportation and electronic communication in and out of China. In 1984, total trade between Hong Kong and China increased 55 percent to reach $12.2 billion. Re-exports from Hong Kong to and from China increased 76 percent. The 8.6 million visitors (both local and foreign tourists) who traveled from Hong Kong to China last year also provided substantial foreign exchange for China.

Anxiety over the future of Hong Kong, after it reverts back to Chinese sovereignty in 1997, was substantially allayed by the signning of the Sino-U.K. Joint Declaration on the Future of Hong Kong, which was initialed in September 1984. Britain's Prime Minister Margaret Thatcher and China's Premier Zhao Ziyang signed the Sino-British accord on December 19, 1984, and the instruments of ratification were exchanged on May 27, 1985. The agreement allows the restoration of Chinese sovereignty over Hong Kong in 1997, while providing Hong Kong with a high degree of autonomy for 50 years thereafter. It guarantees the preservation of the territory's social and economic systems the independence of the judiciary, and participation in international agreements and organizations. Hong Kong will also retain its own system of law.

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The Sino-U.K. agreement calls for the establishment of a Joint Liaison Group (JLG) to smooth implementation of the accord during the period of transition to Chinese sovereignty. The JLG consists of five representatives each from China, Hong Kong, and the U.K., and will meet periodically in Beijing, Hong Kong, and London.

Other developments relating to Hong Kong's future include the drafting of the Basic Law, Hong Kong's constitution, which is to be drafted by a 59-member committee under the auspices of China's National People's Congress. China announced on June 18 of this year that 23 of the 59 members would be Hong Kong residents. The first drafting committee session was held in Beijing in July.

Meanwhile, the Hong Kong Government announced plans for gradual growth of representative government. The territory's first indirect election of 24 of 56 members of the Legislative Council, Hong Kong's lawmaking body, was scheduled for September 1985. The remaining 32 members will be Hong Kong Government officials and "unofficial members" appointed by the Governor. The Chinese government has remained neutral on these reforms, neither praising nor criticizing them.

Since the signing of the Sino-U.K. accord, uncertainty over Hong Kong's future has been largely resolved, and there has been a revival of confidence in the business community. The property market and stock market, hardest hit by political uncertainties, have rebounded, and the attention of the business community has shifted to anxiety over U.S. protectionism.

United States–Hong Kong Trade Relations

The economic ties between the United States and Hong Kong are exceptionally strong. Hong Kong is one of Asia's wealthiest and most dynamic economies, due in part to its dedication to free trade and free market principles. The United States is Hong Kong's largest trading partner, while Hong Kong ranks 10th among our trading partners. In 1984, total two-way trade between the United States and Hong Kong was $12.5 billion, a 38 percent increase over the 1983 level of $9.1 billion. Hong Kong's exports to the United States have consistently exceeded U.S. exports to Hong Kong; during the first 5 months of 1985 the U.S. deficit reached $1.8 billion, up from $1.7 billion for the same period last year.

Hong Kong's economic prosperity depends significantly on its continued access to the U.S. market. Hong Kong's 9.6 percent GDP growth in 1984, for instance, was due in large part to a 45 percent jump in its exports to our expanding economy. The U.S. market takes 45 percent of Hong Kong's domestic exports (i.e., not including re-exports), including 42 percent of Hong Kong's most important export, textiles and apparel; 60 percent of its second most important export, electronic products; and 40 percent of the third most important export, watches and clocks.

Hong Kong's exports to the United States in 1984 totalled $9.4 billion, including textiles and apparel (34 percent), electronic products (19.7 percent), electrical machinery (8.4 percent), communications equipment (7.1 percent), plastic toys (6.9 percent), office machines (6.8 percent), and watches (4.7 percent). U.S. exports to Hong

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Kong rose 27.1 percent to $3.12 billion in 1984, consisting of electrical machinery (19 percent), office machines (12.5 percent), tobacco products (5.5 percent), vegetables and fruit (5.1 percent), transport equipment (3.5 percent), and textile fibers (3.0 percent). The United States is the largest foreign investor in Hong Kong's manufacturing sector, and has a total of $4-5 billion invested in all sectors of the Hong Kong economy.

Hong Kong's economic importance is further enhanced by its growing role as a base and conduit for U.S.-PRC trade. Over 300 Chinese businesses have offices in Hong Kong for the purpose of doing business with the outside world. Hong Kong serves as a major port of entry for trade with South China.

Recent efforts by the Hong Kong Government to provide increased protection to intellectual property rights have reduced the problems of counterfeit trade. Generally, intellectual property right protections provided under British law have been extended to all parties in Hong Kong. New laws to further protect holders of intellectual property rights have also been implemented. The Hong Kong Government has stepped up enforcement efforts, and numerous raids have cracked down on counterfeiting rings. As a result of serious enforcement of a new program against illegal drug traffic, Hong Kong is no longer a major transshipment site for illegal drugs on their way to the United States.

The major source of irritation in United States-Hong Kong trade relations today is the threat of increased U.S. restrictions on textile imports. Hong Kong is the largest supplier of MFA-fiber textiles and apparel to the U.S. market in value terms ($2.4 billion in 1984), and the third largest supplier in volume terms (over 1 billion square yards equivalent in 1984). Hong Kong accounts for more than 10 percent of our total textile and apparel imports. Last year, MFA-fiber textiles and apparel comprised 26 percent of the United States's total exports to the United States.

The current bilateral textile agreement between Hong Kong and the United States was signed in June 1982, and placed 32 categories under restraint. Since then, the United States has obtained Hong Kong agreement to quotas in an additional 15 categories, bringing the total number of controlled categories to 47. As a result, 73 percent of Hong Kong's MFA-fiber textile and apparel exports to the United States are subject to specific quantitative limits. The remainder is subject to control under the bilateral agreement's consultation mechanism.

Hong Kong has expressed its strong objections to the Textile and Apparel Trade Enforcement Act (H.R. 1562) now pending in the U.S. Congress. It is the position of the Hong Kong Government that this legislation violates the MFA and the United States-Hong Kong bilateral textile agreement, and invites retaliation against U.S. exports. Hong Kong estimates that the bill would reduce its MFA textile and apparel exports to the United States by 13 percent and its non-MFA exports by as much as 70 percent (compared with 1984 trade), resulting in losses of up to $1 billion.

The Hong Kong Government is particularly disturbed by the increased restrictions under the bill, in light of Hong Kong's lack of restrictions against U.S. exports and complete adherence to free market principles. In a press statement in July of this year, Secre-

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tary for Trade and Industry Eric Ho stated that Hong Kong is "not a little bewildered, because we have a completely open economy . . . and yet your actions seem targeted at us".

Hong Kong was also very upset by U.S. Customs' action last year to change the rules of origin for textiles and apparel. As a result of the change, knitwear made in Hong Kong from panels knit in China are now charged against PRC quotas, rather Hong Kong quotas, as was previously the case. Fearing the loss of as much as $200 million in exports and up to 30,000 jobs, Hong Kong protested to both the U.S. Government and the GATT's Textile Surveillance Body (TSB) that the change violated the MFA and the bilateral textile agreement. In December 1984, the TSB found that the rules had upset the "balance of rights and obligations" under the bilateral agreement and recommended bilateral consultation to redress the imbalance. Hong Kong was not satisfied, however, with subsequent changes in the final rules, which were published in April 1985. Hong Kong manufacturers have responded to the rules by repatriating knitting operations from China, assembling sweaters with panels knit in the European Community which enter the United States quota-free, and increasing exports of non-MFA-fiber sweaters.

Highlights of Meetings With Hong Kong Officials

A. SPEECH BY SECRETARY FOR TRADE AND INDUSTRY ERIC HO

On August 20, Hong Kong's Secretary for Trade and Industry, Eric Ho, delivered a speech to the delegation on the status of United States-Hong Kong economic relations. Secretary Ho began his remarks by commenting on the significance of the Sino-British Joint Declaration on the Future of Hong Kong. He then discussed the nature and levels of trade between Hong Kong and the United States, and compared these levels to trade with other countries. Hong Kong is, of course, the world's third largest financial center, and U.S. participation in its financial sector is extensive. The United States also is a major source of the foreign investment in Hong Kong.

Secretary Ho reviewed the efforts and accomplishments made by the Hong Kong Government to provide for protection of intellectual property rights, and to observe International Labor Organization conventions of labor rights.

Finally, Secretary Ho addressed the importance to textile exports to Hong Kong's economy, and Hong Kong's strong objections to the pending textile quota legislation (H.R. 1562) in the U.S. Congress. He reiterated his government's position that the legislation violates the GATT, the MFA, the bilateral textile agreement between Hong Kong and the United States, is discriminatory and would not only justify, but invite retaliation against U.S. exports. He warned that it would be counterproductive to the U.S. efforts to launch a new round of trade-liberalizing negotiations. Mr. Ho also alluded to recent actions by the U.S. Government to revise country-of-origin rules for textile products as violations of the MFA and of bilateral textile agreements.

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Secretary Ho concluded by urging the delegation to stand fast against the pressures of protectionism and to remain committed, along with Hong Kong, to a system of free and fair trade and open markets. The full text of Secretary Ho's remarks is reprinted in the appendix (Appendix V).

B. MEETING WITH FINANCIAL SECRETARY SIR JOHN BREMRIDGE

On August 21, the delegation met with Sir John Bremridge, Financial Secretary of Hong Kong. Sir John gave the delegation an extensive briefing on the economic and financial status of Hong Kong, including the role of foreign trade and investment, and the provision of public services by the government.

Foreign trade is the life blood of Hong Kong; trade accounts for 180 percent of Hong Kong's GDP. Therefore, any action affecting trade with Hong Kong will have a dramatic effect on its GDP. Trade with the United States alone represents 12 percent of GDP, while trade with the U.K. represents 20 percent of GDP.

Approximately 44 percent of Hong Kong's total exports go to the United States—a value of $7.9 billion. Of this total, 16 percent enter the United States duty-free under the Generalized System of Preferences. According to Sir John, textiles and apparel under the purview of the MFA account for 31 percent of Hong Kong's exports to the United States.

Of Hong Kong's total imports, none are subject to import duties, and only 6.3 percent are subject to any duties. Hong Kong imposes a tax on tobacco and cigarettes (both domestic and foreign) and an alcoholic beverage tax based on alcohol content. In 1984, Hong Kong was the second largest export market for U.S. cigarettes, which account for 69 percent of Hong Kong's consumption of cigarettes. Hong Kong is the third largest market for U.S. oranges. Other major markets for U.S. exports include integrated circuits and aircraft.

The United States is the largest source of foreign investment in Hong Kong, accounting for 54 percent of total foreign investment. Over 800 U.S. firms have a presence in Hong Kong. At the present time, 126 factories are wholly or partly owned by U.S. companies. The United States also has a large presence in the financial services sector, with 20 U.S. banks in Hong Kong, and 36 deposit-taking companies. The U.S. banks account for the largest single group of foreign banks in Hong Kong. (Of the 142 banks licensed to do business in Hong Kong, 107 are foreign banks.) In the insurance field, the United States is the second largest foreign presence, with 47 companies in Hong Kong wholly or principally owned by U.S. interests.

Hong Kong's economy, after enduring a deep recession in 1981–82, is now prospering. GDP grew last year by 9.6 percent. Per capita GDP, aproaching $6,000 (U.S. dollars), places Hong Kong at the same level as many of the less developed European countries. Real wages are still rising and unemployment, now at 3.5 percent, is essentially at the full employment rate. Sir John cautioned, however, that despite these strong economic indicators, Hong Kong is totally vulnerable to external shocks, due to its heavy reliance on foreign trade and investment.

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Hong Kong will face a budget deficit this year of HK$500–$600 million (U.S. $64–$77 million). Sir John indicated that he expects to present a balanced budget within the next year. As any territory grows, he noted, there are increased pressures for social services to be provided by the government. In the last four years, no single public program has been cut in Hong Kong. This year, 15.2 percent of Hong Kong's GDP will go to public services. This figure compares with 30 percent in Japan, 42 percent in the U.K., and 60 percent in Sweden.

Free education and health care are among the public services provided by the Hong Kong Government. In addition, 43 percent of the Hong Kong population is housed in public housing. This level is expected to rise to 60 percent by the end of 1989. Approximately 45,000 apartments per year are built for public housing purposes. Sir John described the role of the Hong Kong Government as providing a "net" to catch people who can't support themselves.

Hong Kong has an old age allowance system to provide income to citizens over 60 years of age. Between the ages of 60 and 70 years, the government provides a supplemental allowance if the citizen's income is below a certain amount; for citizens over 70 years of age, the allowance is not subject to a means test. Sir John described the system as a type of negative income tax, based on need, not right.

The income tax system includes a salary tax, subject to a maximum rate of 17 percent. The first HK$73,000 (U.S.$10,000) is not subject to tax. Of the 2.2 million workers in Hong Kong, only 112,000 actually have to pay income tax. No income tax is paid by the typical family of two parents and two children.

Sir John and the delegation also discussed the impact of Hong Kong's reversion to Chinese sovereignty in 1997 on financial markets and investors' confidence, the significance of the Sino-U.K. Agreement, and the future of Hong Kong beyond 1997.

C. MEETING WITH REPRESENTATIVES OF U.S. BUSINESSES IN HONG KONG

On August 21, the delegation had a working breakfast with members of the Asia-Pacific Council of American Chambers of Commerce (APCAC), and the American Chamber of Commerce in Hong Kong. The business representatives voiced strong objections to the pending textile quota legislation and to any protectionist legislation, as posing a serious threat to their continued access to certain foreign markets (such as Hong Kong) and to increased access to other foreign markets (such as China). The business community stressed the importance of eliminating protectionist practices and dismantling foreign trade barriers so that U.S. access to foreign markets is equivalent to our foreign competitors' access to the U.S. market. Passage of protectionist legislation such as the textile quota bill, they warned, will damage U.S. efforts to achieve reciprocal market access.

Members of the delegation and of the business community discussed the problems relating to the strong dollar, and the relationship between trade and financial markets. The issue of how much the dollar must depreciate to reflect a "normal" or "fair" value was also addressed. Furthermore, the need for capital markets in

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Japan to be opened up, so as to allow the yen to rise to its appropriate value, was emphasized.

Finally, the need for competitive export financing was stressed by the business representatives. To relieve the pressure for protectionist measures to decrease U.S. imports, increased U.S. exports must be supported by competitive export financing programs. The competitive position of the French in world markets was attributed in large part to the role of mixed credits in their export financing policy.

Position papers prepared by the American Chamber of Commerce in Hong Kong on the issues of textiles, market access, intellectual property rights, export financing, export controls, Foreign Corrupt Practices Act, and taxation of Americans abroad are reprinted in the appendix (Appendix X).

D. APPAREL FACTORY TOURS

Prior to the delegation's arrival, staff visited two different apparel factories in Hong Kong. The Cordial Company manufactures high-priced women's fashion garments for designers including Sir James, Ship 'N Shore, Pierre Cardin, Christian Dior, Evan Picone, and Gloria Vanderbilt. It employs 175 sewers, who work an 8-hour day, 6 days a week. Base wages are $450 (U.S.$) a month in take-home pay. Bonuses are provided for perfect attendance, punctuality, and good behavior. A standard bonus is one additional month's wages per year. Loans are often provided to employees to assist in their family educational and hospitalization expenses.

All garments are manufactured on a contract basis. It usually takes two to three months between the time an order is initially discussed, and the time supplies would arrive at the factory. The garments would then take up to 60 days to finish. In extraordinary cases, this timetable may be shortened. Once, an order for 100 dozen pieces was completed in four days—from order to delivery.

The minimum order accepted by this company is 50 dozen (600 pieces). It usually requests an initial order of 1,000 pieces for new customers. The company maintains $50,000 worth of accessories in its inventory. It generally purchases its polyester and cotton from Japan, its silk from China, its thread and zippers from Hong Kong. With regard to U.S.-made fabrics, the company official stated that the prices were high, and the quality not as great.

Cordial Company incurs $2 million in labor costs annually, which represents approximately 46 percent of its total costs of production. It enjoys fairly good worker loyalty for Hong Kong, with a turnover rate of 30 percent. The average length of employment for one of its workers is three years.

Staff also toured the facilities of Jumbo Knitters Limited, which manufactures knitted garments entirely for export. Its customers include Macy's, B. Altman's, Saks Fifth Avenue, and various designers. Approximately 80 percent of its production is exported to New York, 10 percent to Australia, and the remaining 10 percent to the United Kingdom. Its minimum order is 500 pieces per 3-color combination.

Jumbo Knitters purchases its yarn needs from within Hong Kong, Taiwan, Japan, Korea (wool), and Scotland (cashmere). The

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fabric is then knit on the premises. Zippers are purchased from Japan, and buttons from Hong Kong. Approximately 40 percent of its production costs are accounted for by materials; 60 percent are labor costs.

A total of 200 workers are employed by the company, who work an 8-hour day, 6 days a week. The factory has a production capacity of 30,000 pieces per month. It is currently running way below capacity, however. In 1984, it manufactured approximately 30,000 pieces a month. In 1985, it has been manufacturing only 10,000 pieces a month.

Most of its employees are long-time employees—it has a very low turnover rate of only 5 percent. Wages are tied to the number of pieces completed per day. Average wages are $120–$150 (Hong Kong dollars) per day. Each worker receives 7 days paid leave, 7 days of national holidays, and 2½ months maternity leave (with 75 percent pay).

Conclusion

The visit to Hong Kong provided the delegation with an opportunity to discuss current issues in U.S.-Hong Kong economic relations, and to examine the growing prosperity of one of the world's most open markets. Much of the prosperity which Hong Kong's economy is now enjoying is a direct result of its open markets and free enterprise spirit. It is important for Hong Kong to continue to maintain an economy that is free of trade and investment barriers—both to further its own economic self-interest and to serve as an example for other developing countries to emulate. In particular, Hong Kong should use its influence among its Asian neighbors to persuade them to liberalize their markets and pursue trade policies that are free of unfair practices or barriers.

The delegation was very impressed with the growth and vitality of Hong Kong's economy following the deep recession of 1981–82. We hope that this growth and vitality will continue up to and beyond 1997, when Hong Kong reverts back to Chinese sovereignty. The recently signed Sino-British Joint Declaration on the Future of Hong Kong is a significant assurance of the continued viability of Hong Kong's economic system. The delegation supports and applauds the Joint Declaration and hopes that its implementation and the transition itself will not result in any contraction of Hong Kong's role in the global trading community, but serve to enhance that role as well as to enhance the role of China in a liberal world trading system.

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APPENDIXES

APPENDIX A: SUBCOMMITTEE PRESS RELEASE, JULY 26, 1985 ANNOUNCING TRADE MISSION

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, ANNOUNCES A TRADE MISSION TO THE FAR EAST

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that he will lead a trade oversight mission to the Far East during the August district work period.

In announcing the mission, Chairman Gibbons noted that:

> This is a unique time in U.S. relations with Asia/Pacific countries. U.S. trade with countries of the Pacific Rim has surpassed our trade with every other region of the world. Further, the economies of a number of countries in the Pacific are increasingly open to U.S. exports of goods and technology. However, our economic relations with the region are not without problems having implications for the entire international trading system. The mission will provide the Members of the Committee an opportunity to review first hand U.S. trade and economic relations with our key Asian trading partners.

During its mission, the Subcommittee intends to review the full range of bilateral and regional trade issues with top governmental and business leaders. For security reasons, the itinerary and schedule of meetings will not be released. Upon its return, the delegation will issue a complete report, detailing the official meetings in each country as well as the findings of the delegation.

Mrs. Gibbons will accompany the Chairman on the trade mission at no additional cost to the U.S. government.

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APPENDIX B: LIST OF MEETINGS, PLANT TOURS, AND OTHER VISITS

August 1–3: Canada (Vancouver)

Premier William Bennett, British Columbia
Canadian Trade Minister James Kelleher
Consul General George Ogg
Council of Forest Industries (COFI)
Other Representatives of Canadian and B.C. Governments
Press Conference

August 4–8: Japan (Sendai, Tokyo)

Prime Minister Nakasone
Foreign Minister Abe
Ambassador Mansfield
Keidanren
Governor Yamamoto (Miyagi Prefecture)
Mayor of Sendai
American Chamber of Commerce in Japan
LDP Diet Members Luncheon Meeting
Tohoku Alps Electric Co.
Tohoku Atsugi Apparel Co.
Press Conference

August 8–11: China (Beijing)

Vice Premier Tian Jiyan
Vice Minister of Foreign Economic Relations and Trade Wei Yumin
Vice Chairman of the Standing Committee and Chairman of the Finance Committee of the National People's Congress, Wang Renzhong
Working Session with members of NPC Finance and Economics Committee, Ministry of Foreign Economic Relations and Trade, Ministry of Foreign Affairs, and several other ministries
Deputy Chief of U.S. Mission Herbert Horowitz and Embassy Staff
National Council on U.S-China Trade, and American Chamber of Commerce in China
Textile Plant Tour
Press Conference

August 11–13: Nepal (Kathmandu)

King Birendra (Mr. Gibbons and Mr. Frenzel)
Prime Minister Lokrendra Bahadur Chand
Parliament Chairman Marich Man Singh
Minister of Water Resources, Pashupati Rana
Ambassador Weil and Embassy Staff
Peace Corps Director
Aid Director
Press Conference

August 13–17: India (New Delhi, Bombay)

New Delhi:
- Secretary of Commerce Prem Kumar
- Minister of Commerce and Finance, V.P. Singh
- Parliament Speaker, Bal Ram Jakhar
- Trade Fair Authority Chairman, Mohammad Yunus
- Indo-U.S. Chamber of Commerce
- Press Conference

Bombay
- Citibank
- Hinditron Ltd.
- Tata Sons Private Ltd.
- Port Trust Chairman Zafar Saifyllah

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Consul General Harry Cahill
Indo-U.S. Chamber of Commerce

August 17-20: Thailand (Bangkok)

Prime Minister Prem
Foreign Minister Sitthi
Working Session with Thai government officials, Thai Industry Leaders and Thai General Assembly members
ASEAN Representatives
Thai Board of Trade
Thai Trade Union Congress
U.S. Ambassador Brown
American Chamber of Commerce in Thailand
Press Conference

August 20-21: Hong Kong

Governor Youde (reception)
Secretary of Trade Erio Ho
Financial Secretary Sir John Bremridge
U.S. Consul General Burt Levin
American Chamber of Commerce in Hong Kong and Asia-Pacific Council of American Chambers of Commerce
Press Conference

August 21-23: China (Guangzhou, Shenzhen)

Guangdong Provincial People's Congress
Vice Chairman Zhen Bingshi
Working Session with Guangdong Provincial Government leaders
Shenzhen Vice Major Wu Xiaolan
Consul General Wever Gim
China-American International Engineering Company (Bechtel joint Venture)
U.S. businessmen resident in Guangzhou

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APPENDIX C: ESTIMATED ECONOMIC INDICATORS FOR 1984: EAST ASIA AND THE PACIFIC

[Dollars in millions]

	GNP (GDP) current dollars	Real growth rate (percent)	GNP per capita (U.S. dollars)	Defense expenditure as percent of GNP	Inflation rate—CPI (percent)	Total exports	Total imports	Trade balance	Current account balance	Population (thousands)	Unemploy rate (percent)	U.S. exports	U.S. imports	U.S. trade surplus deficit
Burma (1983)	NA	6.0	NA	NA	5.2	$439	$730	$291	NA	36,300	NA	$16	$11	$5
Fiji (1983)	$1,160	−6.0	NA	1.3	7.3	256	516	−260	NA	670	NA	NA	19	NA
Indonesia	99,000	4.5	$566	2.1	10.0	19,800	15,450	4,350	−$3,246	159,000	NA	1,211	5,484	−4,273
Korea	80,101	7.5	1,974	5.3	2.5	27,000	28,000	−1,800	−1,000	40,578	4.0	5,839	9,353	−3,513
Malaysia	30,647	6.7	2,037	6.1	4.5	15,589	13,909	1,680	−1,966	15,100	5.9	1,843	2,769	−926
Philippines	32,000	−5.5	600	1.1	50.8	5,350	5,850	−500	−1,500	53,200	6.5	1,708	2,430	−721
Singapore	16,556	8.5	7,075	5.7	3.0	22,700	27,200	−4,500	−252	2,532	2.6	3,590	4,030	−440
Thailand	40,862	6.3	843	4.0	2.0	6,754	10,278	−3,524	−1,888	51,745	NA	1,052	1,350	−297
Tonga (1983)	53	2.9	686	NA	NA	6	34	−28	NA	98	NA	NA	NA	NA
Japan	1,152,943	5.4	10,460	1.0	2.6	170,126	136,451	33,675	33,000	119,996	2.7	23,173	60,371	−37,198
China (1983)	311,664	9.1	302	7.0	2.0	22,223	18,955	2,268	4,457	1,031,563	NA	3,004	3,065	−61
Taiwan	56,638	10.9	3,003	9.0	−.3	30,457	21,963	8,494	7,400	19,063	2.4	4,822	14,768	−9,946
New Zealand	33,745	−0.1	7,916	3.1	5.0	9,397	9,611	−214	−2,312	3,251	5.5	701	785	−84
Australia	153,545	5.7	10,240	3.1	6.9	27,581	27,322	259	−6,414	15,462	9.6	4,705	2,675	2,029

NA-not available.

Source: Department of State.

APPENDIX D: TRANSCRIPTS OF DELEGATION PRESS CONFERENCES

1. Tokyo, Japan, August 8, 1985

Following is transcript of press conference that took place at American Embassy, Tokyo, on Thursday, August 8, 1985. Japanese and American media were in attendance.

Congressman Gibbons. Thank you, and we appreciate the opportunity to be here. We also appreciate the fact that so many members of the news media have turned out for this press conference.

We are not strangers to Japan. We have been here on many other occasions, and we came this time with a special purpose in mind. That purpose was to sit down with the people of Japan, their Government officials, business officials and with everyone that we could see to give one simple straightforward message.

That message is that in the Japan-U.S. trade relationship, the time is very, very late and the situation is very, very critical. As recently as this morning our Secretary of Commerce, Mr. Baldrige, announced that our trade deficit had continued to climb. Our message to the Japanese Government, to its political parties and to its people is that the political system in the United States will not sustain these large deficits. You must recall that for every one billion dollars' worth of trade deficit that we have, it costs us 25,000 jobs, and when you look at a deficit with Japan that is 37.5 billion dollars and growing, you can recognize the pressure that we have.

Of course, Japan is only a part of the United States trade deficit. But it is the largest part, and it is the most persistent part of this deficit. And while we have a great deal of respect and friendship and admiration for the hard-working, productive Japanese people, we must say that something has got to change and that there must be a steady, determined effort to reduce this trade deficit.

I have set as a personal goal—and I have discussed it with the Prime Minister and Mr. Abe (Foreign Minister) and with other officials—that this deficit must begin to be reduced right now and must come down to not more than 15 billion dollars within five years. Now that is an attainable goal, but it will require a great deal of work on both sides of the Pacific Ocean.

On our behalf we are making efforts—we think very strong efforts—to reduce our budget deficit which should, in turn, reduce the value of our dollar in its relationship to the yen. But even that will not stem this tremendous deficit rise, because we had the experience in the seventies of the yen being very strong against the dollar, and we still had very heavy deficits with Japan.

So politically, the Members of the United States Congress are not able to sustain the kind of open market that we would like to have with Japan. We ask simply that Japan open its market to the same extent that the U.S. market is open—not only on paper but in practice. There is a depth of feeling in the United States that while the Japanese market is open on paper, in actual practice it is not open.

Now we should not be here trying to tell the Japanese people, or their Government, how they should run their own internal affairs. It is obvious that the Japanese people work very hard and save a great deal of money and lend that money overseas. I would prefer to see them (use that money to) develop Japan, develop its housing, develop its roads, develop its public recreational areas, give more leisure time to the Japanese people. That I think in the long run would help alleviate this critical problem. But even those matters will not help us in the immediate short run, and that is what we must deal with right now.

The Moss talks, or the talks on selected high technology items—such as medical equipment and electronic equipment and forest products and chemicals—are all fine. The action program that the Japanese Government has announced is fine. But we look for results, because it is only through results that we can convince our constituencies that we should keep our markets open for Japanese products.

I have been in the Congress now for almost 24 years. I have worked on these trade matters for most of those 24 years. I have visited Japan numerous times and talked to its people, and so I come here with respect of them and knowledge of their system and of their problems. My message is simple and straight and direct. We

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cannot go on the way we have been going on. It is going to take heroic efforts on the part of the Japanese people and the Japanese Government to stem this deficit and to begin to turn it around.

Your Prime Minister is applauded by us for his leadership efforts. We hope that the Japanese people and the Japanese businessmen will listen to him and will try to help him accomplish those goals.

Now, some of you may say that, oh, this is just a group of visiting American Congressmen who come here to see the pretty sights in Japan. I wish that were so. I wish that I could come here when there was not the kind of crisis and problem that we now have. But in all directness and in all fairness and in all friendship, I must tell you that we are in a crisis situation.

What is going to happen * * * the Members that you see in front of you now will be busily engaged in rewriting the American tax laws between now and October 14. After October 14, we have told by the leadership in the Congress that we must take up trade legislation. There are 57 bills in our trade subcommittee, all of which—if you read them—you would have to classify as being attempts to close the American market. Many of them are aimed at Japan specifically. The first bill that will probably move will be a textile bill. It has more supporters in the House of Representatives and in the Senate than is necessary to pass such a bill through the Congress. Even if the President should veto it, there are probably enough votes in the House—and perhaps enough in the Senate—to override his veto.

Now, Japan is not a big textile exporting country, but the impact of the bill would be to cut Japan's exports to the United States in textiles and garments by 15 percent immediately (Note: the actual range is 15–25 percent).

Another bill—and I shall not try to describe all 57 of these bills—but another bill that I consider very serious is a bill introduced by Mr. Rostenkowski (chairman of the House Ways and Means Committee) and by many other Members of the House of Representatives and many Members of the Senate. That bill says: Unless Japan reduces its trade surplus with the United States, a 25-percent surcharge would be placed on all Japanese goods coming to the United States. That is serious legislation. It is introduced and promoted by serious people who recognize the political situation in the United States that exports to the United States from Japan have reached a crisis position.

I would far rather we solve this problem by having the same kind of access to Japanese markets as the Japanese have to our markets. I would far rather solve this problem by increasing Japanese consumption of Japanese goods and of American goods, than by restricting the market. But because we are good friends and because we are the two largest economic powers on Earth—Japan and the United States—we must talk frankly and we must work together constructively.

I'm ready for questions now, but if any members of this panel would like to discuss things before we go to questions, I would be glad to hear from them. Let me call attention to the fact that we have people here other than on this panel. We have two people here that I would like to introduce. One is Mr. Friedersdorf. Mr. Friedersdorf is here with his wife. Mr. Friedersdorf is a counselor to President Reagan. He has also been a counselor to President Ford, and he (has) served at the highest levels in the United States White House. He is a member of our delegation.

And certainly I should recognize Senator Russell Long. Senator Long is the former chairman of the Finance Committee, which writes trade legislation. He is the ranking Democrat on that committee, and his word is worth 100 of mine. He is a distinguished man and he chose to sit in the audience today rather than to sit here with us because he said that he thought that if he listened real hard he might learn something from us. [Laughter.]

Excuse me, I'm sorry I have gone so far without translation. Let me correct a statement that I made. One billion dollars' worth of trade deficit is the equivalent of 25,000 jobs in the United States—not 2,500—but 25,000 jobs.

Now, I'm afraid I didn't set a very good example. I talked too long, but let me assure the members of the press, the media, that we will stay here as long as you want us to answer your questions. But before we go to questions, Mr. Frenzel, who sits to my left and is the ranking Republican on this bipartisan committee, wants to make a statement.

Congressman FRENZEL. The chairman has said most of what needs to be said except that he did not comment on our meeting with Japanese officials.

I have been coming to Japan, I believe, six times in the last ten years, making approximately the same speech about market access and finding, when I made it, that 100 million Japanese yawned.

On this trip for the first time, there is a startling awareness on the part of the Japanese—particularly on the part of Japanese leaders—of the problems that Japan

faces in the trading world. Prime Minister Nakasone understands the problem; Foreign Minister Abe understands the problem; and the meetings were, in my judgment, the best that we have ever had in Japan.

The question is whether action can be taken quickly enough to reverse the climate of protectionism in the world. The time is very short, but I shall personally take my cue from Prime Minister Nakasone and say that it is not too late and it is still possible to preserve and maintain the free world's trading system, if Japan is willing to go forward with some very difficult programs that the Prime Minister discussed with us yesterday.

Congressman GIBBONS. Thank you, Mr. Frenzel. And now Congressman J.J. Pickle of Austin, Texas, has a statement he would like to make.

Congressman PICKLE. Mr. Chairman, this delegation came to Japan primarily for the purpose of asking for accessibility, open markets, and I'm very pleased that your Prime Minister, Foreign Minister Mr. Abe, (and) the Liberal-Democratic Party all seem very cooperative and offered us encouragement.

We did not seem to get that same reaction, however, from one group—one big business group—the Keidanren. We appealed to them for accessibility. I do not think they heard us. They turned a Sony deaf ear to our appeals. They really wanted to argue the question of the merits of openness and fairness. In one man's opinion, they blew it. I hope that we can have further talks with them to encourage them to help us correct this imbalance. They can give us strong leadership.

Congressman GIBBONS. And now another member of our committee Mr. Carroll Campbell, a Republican from South Carolina, wishes to make a statement.

Congressman CAMPBELL. Thank you, Mr. Chairman. I was just looking at the figures for the second quarter trade deficit for the United States. The lead is it sets another record. One-third is attributable to Japan. It is also interesting to note that this year the deficit with Japan will be approximately 50 billion dollars. That is a loss of 1,250,000 jobs in the U.S. This is no longer a question of trade and economics. It is now a political question, and the people of Japan and the Japanese Government need to know it is a political question and that it will be addressed politically.

The workers in America know that their jobs are being lost because of trade deficits. In a recent election the issue was trade. The candidate who took the strongest protectionist stance overcame the leader in that election and won. That (lesson) is not lost on the American political community. It should not be lost on the Japanese community. Japan must take bold action—bold action that is recognizable by the people of the world—in order to head off further political action in the U.S. As Mr. Frenzel says, the hour is late. It is very late.

Congressman GIBBONS. Thank you, Mr. Campbell. And now Mr. Bill Thomas, a Member of Congress from the State of California who represents some agricultural areas and some high technology areas, would like to be heard.

Congressman THOMAS. The chairman talked about markets that appear to be open, but are not, either due to tariffs or non-tariff barriers. I won't talk about red beef or wine or specialty nuts like pistachios or citrus. I will simply make a prediction in the hopes that I will be proven wrong.

We've recently created a new value-added agricultural product called wine coolers, a combination of citrus juices and white wine. Through excellent marketing strategy, it is becoming a product that is selling rapidly in the United States.

I will predict that we will not be able to introduce the wine cooler product in a way in which the American products will take a lead on the shelves. I will predict that there will be a slowing down, probably by non-tariff requirements, so that domestic Japanese wine cooler brands will be able to be produced. They will have a several-year leadtime and, finally, when the American product begins to move in this market, there will already be a domestic product. No amount of bridging structure, no amount of action strategy, is going to allow this market to continue in that kind of a practice.

That is the reason we are so strongly underlining the fact that time is running out. We believe there has to be a change in their (the Japanese) ways. I hope that prediction is proven wrong, because it will indicate that Mr. Frenzel's message finally is getting through after all these years.

Congressman GIBBONS. Thank you, Mr. Thomas. Now questions. If people wish to ask questions, would you please rise? It is very difficult to see you with these strong lights.

Mr. CHANG (Time magazine). I should like to ask this question to you, sir, Mr. Chairman. You called the Japanese action program "fine". Wouldn't you call it, to borrow your phrase, an "heroic effort"? If not, why not? Thank you very much.

Congressman GIBBONS. I would wish it had been offered ten years ago. It would have helped more I think than it does now. We have studied the program, but we

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are wise enough to know that it is results that count, and not a program. We have been disappointed in the past with the results of other programs. So, we look for results. Perhaps that doesn't answer your question, but it's very difficult to answer it. I applaud the prime minister and the (Japanese) Government for having put it forward. It is late in coming. I hope its results will exceed my expectations.

Mr. Pease, a Member of Congress from Ohio, who comes from the heart of the steel industry and the automobile industry and the ship-building industry in America, would like to make a further response.

Congressman PEASE. I believe that Chairman Gibbons was quite correct. If the action program had been proposed four years ago, or even two years ago. it truly could have been characterized as a "heroic effort", assuming that is, that it would be implemented fully. As one of our other members said, we are now at a stage where the decisions are going to be more political than economic.

In the United States, protectionism is driven by the monthly figures about our trade deficit. The action program is designed to encourage and improve the U.S. imports situation into Japan and it will, hopefully, do that over a period of one or two or three years.

But at the same time, the lifting of the voluntary restraints on automobiles this year means that in a one-period there will be an additional roughly 5 billion dollars (worth) of Japanese exports to the United States in automobiles alone. It will be very, very difficult for the action program—even when fully implemented—to account for imports into Japan large enough to offset 5 billion dollars in increased exports. That means that in terms of the politics in the United States we are still likely to have trouble.

BOB IRELAND (CNN). You have indicated, despite the Action Program, that you are not completely satisfied with what the Japanese Government is doing. Congressman Thomas, you seem to imply that there is a lack of good faith on the part of the Japanese Government structure. You suggest, however, that there is still a possibility that something can be done between now and the fall. Could you tell me what that could be?

Congressman GIBBONS. Well, let me say that I make no charge that there is a lack of good faith. The answer to your question is extremely difficult, but there are many things that the Japanese Government should do, and I think that they are perhaps embarking on some of those.

Mr. Clayton Yeutter, who is the U.S. Trade Representative and who is the negotiator for our Government, will be in Japan next week to discuss specific items with the Japanese Government. We (the Trade Subcommittee) do not negotiate. We set policy, this committee does. So these are things that must be taken up by our negotiator.

Before we go on and recognize others to ask questions, I'm going to call on Mr. James R. Jones. Mr. Jones is a Representative from Oklahoma. He is the former chairman of the Budget Committee of the U.S. House of Representatives, and he is famous in Japan for his Jones report that was translated into Japanese. I am told more copies were sold of the Jones report than any other government publication by our Government . . . Mr. Jones.

Congressman JONES. Thank you, Mr. Chairman, in answer to your question I can think of three things. First of all, of immediate importance would be for the Japanese to announce an Action Program of recycling those 37 to 50 billion dollars trade surplus in capital investments in the U.S. I think that would help dampen the political problem—to show that Japanese capital investment means jobs in the U.S.

I think the skepticism surrounding the Action Program needs to be taken care of. The Action Program means there are going to be more purchases in Japan of U.S. products. For that to happen, one or two things, or both, must happen in Japan. Either Japanese fiscal policy will have to be stimulated more with more domestic purchases or, two, the barriers to more consumer purchases, more consumption in Japan, will have to be reduced. Such things as the marketing practices, consumer interest, the distribution process for American products that add to the cost. So I think for the action program to work either they must further stimulate their domestic fiscal policies or reduce those barriers to consumption that now exist in Japan.

The third point, very briefly, is that Japan must support and lead, help lead, the U.S. to a few international monetary systems that prevents these wild fluctuations in the dollar.

Congressman GIBBONS. The gentleman from CNN News has a follow-on question that is directly connected with what Mr. Jones is talking about. I would ask you to direct your question briefly to Mr. Jones and then we'll go on to the lady in the front row.

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BOB IRELAND (CNN). Mr. Jones, I was wondering how the money that accrued to Japan by way of the trade deficit could be turned around to create U.S. jobs, when the indication seems to be that there is a true equation between Japanese portfolio investment in the U.S. helping to finance the national debt and the trade deficit.

Congressman JONES. You have touched on a question which, to a great degree, is our responsibility. We have to do something about the deficit ourselves. The fact is if more of the excess dollars generated by Japanese trade were invested in capital improvements in the U.S.—particularly manufacturing jobs, rebuilding our industrial base—that would subside the political problem and it would also put more pressure on us to deal with our own fiscal policies. I would rather see it going into a job in my State of Oklahoma or the chairman's State of Florida or wherever, rather than going into buying U.S. debt securities.

Congressman GIBBONS. Mr. Beryl Anthony, a Member of Congress from the State of Arkansas, has a comment he would like to make at this point.

Congressman ANTHONY. Thank you, Mr. Chairman. I think it's important to note that Japan is the largest purchaser of agricultural products from the U.S. the U.S. is the largest purchaser of automobiles from Japan. The latest numbers show that the Japanese have dropped their purchase of our agricultural products by 20 percent, principally caused by a loss of the corn market to China. I would suggest, if you look at the same time period, that the Automobiles trade has increased 10 percent. That is a 30 percent swing, so a direct thing that the Japense Government could do would be to encourage a resumption of the purchases of those agricultural products from the U.S.

SUSAN CHIRA (NY Times). I have two, I hope brief, questions. One is that Mr. Frenzel spoke of Prime Minister Nakasone discussing very difficult programs that he wanted to put into effect. Are you referring to the Action Program, or are there other measures that he is planning to take? That's number one.

Number two is how did you calculate that one billion dollars in trade deficit equals the loss of 25,000 jobs? Thank you.

Congressman FRENZEL. We discussed with Prime Minister Nakasone not only the Action Program—which we see as taking a little longer to have an effect, if it does have an effect, than is needed under these circumstances. Chairman Gibbons has already explained that Congress in the United States is ready to erupt and something must happen sooner.

There is another program in which the Government is involved, which it refers to as a "bridging" program, in which it is trying to encourage private firms, some of the largest ones, to accelerate their buying of American products and to encourage this Government to do so as well.

If we're going to get any short-run advantage out of what the Government is doing, It is likely to come out of that bridging program first. And then, of course, there is the long-range program the Chairman referred to about the Japanese economy which, of course, goes all the way back to the Strauss-Ushiba agreements, and there are other things in addition. But those are the main ones, and I'll refer to Mr. Gibbons or somebody else on the job question.

Congressman GIBBONS. The figure of 25,000 jobs being equivalent to a one billion dollar trade deficit are figures that we developed over a number of years from public hearings held by this committee, and (to which) economists—both public economists, publicly-employed economists, and privately employed economists—have agreed as a consensus figure. You will find it also in the President's report of the council of economic advisors. It is the best rule of thumb that we are able to work out to measure the impact of trade surpluses and deficits.

DUSTY KIDD (Fairchild News Service). Chairman Gibbons, you mentioned two pieces of legislation that your committee will have to address in October. You seem to anticipate the possibility of a Presidential veto of the textile bill. Do you anticipate that, and could Mr. Friedersdorf tell us what the White House position is?

Secondly, is there anything the Japanese can do to stem the possible enactment of the surcharge legislation?

Congressman GIBBONS. First, perhaps I should explain to some of our Japanese friends what a "veto" is. A veto occurs when the President strongly disagrees with a decision of action by the Congress; that (veto) prevents an action of the Congress from becoming law. A President can be overridden by the Congress if the Congress can have a two-thirds majority vote on the subject. A two-thirds majority of both the House and the Senate. So it is a very serious point of disagreement in the U.S. Government when this occurs.

On the textile legislation, it is my opinion that in the House of Representatives there are more than two-thirds of the members who would vote to override the President's veto.

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In the Senate, we have been counting votes and, frankly, we are not sure what would occur in the Senate, on an override of the textile veto in the Senate. But there is a strong possibility that the Senate could override the President.

Now, it is a customary practice in the U.S. Government that the President never announces that he is going to veto a piece of legislation until it actually reaches his desk. I do not know what the President would do in the case of the textile bill. I don't know whether Mr. Friedersdorf would care to make a guess on that matter or not, but I certainly shall not try to muzzle him on that subject.

Mr. FRIEDERSDORF. As the chairman says, the President never announces until a bill reaches his desk whether he intends to veto it or not. The reason for that obviously is that it can be changed in committee, it can be changed either on the House or Senate floor, it can be changed in conference committee, and it may arrive at his desk in much different form than where it started out. And the bill we're discussing today, the textile bill, could reach the President's desk in a very different version. However, (concerning) the present version of the bill, there is strong opposition in the administration. A letter was sent to the Congress—a very strong letter sent by the Secretary of State, by the Secretary of Treasury, by the Secretary of Commerce, indicating very, very strong opposition to this bill. And I presume that if the bill would pass in the form (in which) it has been introduced. that those same members of the Cabinet perhaps would make a recommendation to the President, and that he would veto. But I think on all legislation the President, of course, will reserve his right until he sees the final form of the legislation.

SATORU SUZUKI (Jiji Press). Despite your vocal warning that some legislation will be enacted by Congress before long, some of the reports reaching here from Washington still indicate that many protectionist bills—including those calling for an import surcharge—are not meant entirely seriously and are designed mainly to please your local constituents and to warn both the Japanese and American Governments that something will have to be done. I wonder if any of the nine Congressmen here today can totally kill the effects of such reports.

Congressman GIBBONS. I can only tell you on this panel that if it were called up for a vote right now, it would pass, and probably many of the others would pass. It is a serious piece of legislation that we face. In the American political process, oftentimes many bills are joined together that make them (the bills) more popular as they go through the process in both the House and the Senate. And that is what could happen. That is, unfortunately, what happened in 1930, during the Smoot-Hawley tariff problems. So we cannot over-stress the seriousness of this situation.

I have so many people up here who want to assure you they are serious. I am going to call on Mr. Campbell first.

Congressman CAMPBELL. Thank you, Mr. Chairman. Let me assure you that the textile and apparel bill, which has 290 sponsors in the House, is a serious piece of legislation. It was drafted some 32 times to refine it to a point where we felt that we could pass it through both bodies. The chairman has said that he expects this legislation to be acted on this fall. There is no question that if that bill were to pass by itself without being amended, that a veto could be overridden in the House on that particular piece of legislation. I don't think there is any question that we would attempt to do so should it be vetoed.

Congressman GIBBONS. Perhaps I should elaborate a little because our political process is so much different than anyone's process of parliamentary styles of government. But a very popular bill like the textile bill could receive added support by putting provisions in there dealing with steel or automobiles or shoes or agricultural products. If that occurs—and it could occur—then you would have a piece of legislation that, despite the President's disapproval, could become law over his veto. That has happened one time in American history in recent times, and that was in 1930. That was the infamous Smoot-Hawley tariff. It was one of the principal causes of World War II.

I really can't verbalize the seriousness of the situation that we have now.

SAM JAMESON (Los Angeles Times). Although Representative Pease is the only one to have explicitly used the nasty words "export restraints", it does seem that if you were talking about reducing (the deficit) with Japan by October, that that's what it comes down to. Would you think that the Japanese Government taking initiative on its own to impose an export surcharge, or an overall export restraint on sales to the U.S., would keep you all from doing the same thing from the other direction? And would you prefer that Japan do that rather than to have to do that yourselves?

Congressman PEASE. I think that's an excellent question and ties in very well with the previous question. There is no doubt that bills are sometimes introduced in Congress to satisfy constituents back home or as a general expression of concern

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about a situation. There is an element of that to the Rostenkowski bill, which the chairman previously mentioned.

But what's different this time is that the Rostenkowski bill has been introduced by the chairman of the Ways and Means Committee, which has jurisdiction over trade. Ordinarily these bills or often these bills are bottled up in committee. Mr. Rostenkowski can decide at any moment to have that bill reported out of committee, and it will be reported out.

Among the co-sponsors of the bill are Mr. Gephardt, the chairman of the House Democratic caucus, and Mr. Wright, the majority leader of the House. So there is no doubt that if the committee reports out the bill, it will go on to the floor of the House of Representatives and there is very little doubt that it will pass.

Will that happen? We don't know. But there is a great danger that it will. Now, essentially it depends on political considerations, and that gets back to your question, sir.

Let me emphasize very strongly: The Rostenkowski bill could pass at any time Chairman Rostenkowski chooses to make it move. His decision will essentially be a political decision. The political pressure for protectionist measures is being driven by the monthly figures on balance of trade deficits. That is what is driving Americans wild—the headlines in the nightly news on television every month report new record trade deficits, especially with Japan.

Trade deficits with Japan are made up of two elements: Increasing exports and decreasing or relatively stable imports into Japan from the U.S. There are two ways to reduce those trade deficits. One is for Japan to import more products from the U.S., which is the whole idea of the Action Program; and the other is for Japan to export less to the U.S.

2. Beijing, China, August 11, 1985

Following is a transcript of the press conference that took place at Embassy on Sunday, August 11, 1985, at 8:00 a.m. Representatives of Reuters, AP, and UPI were in attendence.

I.O. Rifkin. I would like to welcome you all here this morning. We have the pleasure of having Sam Gibbons, representative from Florida, here today. He is chairman of the trade subcommittee of the House Ways and Means Committee. This press conference is on the record attributable to the congressman.

Sam Gibbons [SG]. Thank you very much. We appreciate your coming out this early morning and we are very responsive to your questions. I am Congressman Sam Gibbons, the chairman of the House Subcommittee on Trade and I have with me this morning Mr. Bill Frenzel, Republican Member of Congress, ranking member of the Republicans on the Trade Committee and to his left is Mr. Carroll Campbell, a member from South Carolina, the heart of the American textile district. He is on the Trade Subcommittee. Mr. J.J. Pickle, from Austin, Texas—he is on the Ways and Means Committee. He and I sat next to each other for years, and he is one of the veterans in Congress and very active in the trade area with us. As a way of explaining why we are here, we could give a little civics lesson. We apologize about that but, as I was telling a gentleman from Reuters awhile ago, when we got through fighting that little revolution with his folks about two hundred years ago, the people in our country got in a fight over who would control external trade in the U.S. As you remember, one of the big issues in the American Revolution was external trade. And so they put the responsibility for handling external trade in the hands of the Congress. I explain that because it is unique in the world and it's very unique really in the powers of our Government. We are the committee which came to China many years ago to begin the normalization process. I was in that delegation and I believe Mr. Frenzel was and Mr. Pickle was on the committee at that time. And we have been back a number of times. We come here because we want to keep a constant dialogue with friends that we met then. So we are here for that mission. Secondly, we are very proud of the progress that has been made between the U.S. and the PRC. We started off at zero just a few years ago, and we are now the second largest trading partner with China, and it is our goal to be the largest trading partner with China. We think we have the credentials to do that.

Right now we have one of those problems that is obviously going to arise from time to time; as our trading relationship grows—that is over the issue of textiles and garments. As you know, China is not a member of multi-fiber arrangement and we have to carve out other peoples quotas in order to give a fair amount of quotas to the Chinese. Textiles are 35 of China's export trade, and we are their largest customer for textiles in the world. So pending now in the Congress is a bill that would severely limit the amount of textiles China and other countries could ship to the

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U.S. The Chinese allocation would be cut between 55 and 58 percent. So you can see that this is a very serious matter for them and of course it is a serious matter for us. About 293 Members of the House of Representatives have endorsed and been cosponsors of a bill to limit this trade. As you know that is 70 some more than it takes to pass a bill in the House. There is also a majority of the Members of the Senate that endorses legislation, and it probably will be acted on sometime this fall.

The Government of the PRC has very determindly let us know in writing and in talks that this would be a very serious matter as far as they are concerned; that they would have to retaliate in some form. They are wise people. They did not exactly spell out how they would retaliate, but they let us know in no uncertain terms that they did not have the reserve nor would it be in keeping with their policy if we cut off their trade, they would have to cut off other trade with us which always raises more serious points. There are other items we needed to raise with the PRC. We raised so many items with them yesterday that last evening they brought me this wonderful book that I have been reading this morning called the almanac of China's foreign relations and economic relations in trade. It is a very fine book and we wanted to talk to them about the necessity, if we are going to be China's largest trading partner, we are going to have to have commercial bank representation here. We explained to them in great detail how the commercial banking representation would expedite trade and would expedite their ability to sell goods to the U.S. We told them that the U.S. Government does not buy goods—it is the private business sector of the U.S. that buys goods. And that from a socialist country like this it is new, all brand new, to work out the arrangements, and commercial banking on the spot is a necessity for expediting those goods. We also told them of the problems that our businesses are having here with the employment of Chinese nationals. I think you are all familiar with the system that is used here—our people find it very unproductive. I am sure business people from all countries find it unproductive, and we realize the Chinese have problems here but we want to work them out, but we need to train the Chinese nationals better so that they can be more responsive to the education and motivation systems that we have so that we can expedite building a better commerical relationship.

Our first formal meeting in the PRC was with the American Chamber of Commerce. We always meet with them wherever we go because we find that they are the commercial representative, so to speak, of American business. We get a great deal of detailed information from them. And so we reinforce those points. That was a good working breakfast the first day we were here. Then we came over and met with our Embassy folks right here in this room to receive a very substantial briefing on the broader picture rather than the narrower picture we are involved in. I have here some left over copies of our itinerary. I would ask that perhaps you would want to pass them out to the members of the press and they will give you the names of the people we saw and the events as they occurred. I think we made some progress on textile products. I don't want to speculate further because I think speculating further may slow down any attempt to negotiate the problem and we are not the negotiators. Years ago, after the 1930 Tariff Act, the Congress decided that it had to have a negotiator and the negotiator is in the U.S. Trade Representative Office, Ambassador Yergen, and we have a special textile negotiator in addition to that. I would be glad to respond, and any of the members here would be glad to respond, to your inquiries. We appreciate your coming—we realize it is awfully early in the morning and we wish we had a cup of coffee or a doughnut or something for you here.

Question. What compromise could there be on the textile issue?

Answer. Well China is anxious, of course, to gain foreign exchange and China's textile exports are 35 of its export trade. One of the problems that has plagued the U.S. is because of China's great productive capacity, once it gets started in one field it goes so far and so fast and so cheap that it completely destroys that sector of the textile or garment industry in the U.S. The need to show some better concern for surges and broadening of the line while they find other goods that they can sell. One of the reasons that we were stressing that is so important that we could get the American people in here and inhance their possibilities of doing business here is so that they could find other products to sell. A socialist country such as China tends to state plan, while we are such a highly decentralized society that our Government purchases practically nothing except munitions. It is necessary to get our business people in here to see what they will buy. It has been my experience that my mind will not anywhere encompass the great, broad spectrum of what can be purchased when the American businessman gets into a country and decides what can be fit into his product line or what he is doing. It may be a component, it may be a finished product—it could be anything.

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Question. Senator, did they promise movement or setting up banks?

Answer. They expressed particular interest in the banking situation. We told them that all we sought was reciprocity in the banking situation. We explained to them in detail how our commercial banks work, and we explained to them that our banks would be subject to their sovereignty and subject to tax laws, and subject to their bank control laws. So we stressed that very heavily with them and at a number of conferences later on, particularly, I recall the one we had with Mr. Tian yesterday afternoon. He mentioned banking, said they would give it consideration, and we were impressed with that.

Question. Can you speculate on some of the areas in which the Chinese might retaliate in textiles?

Answer. They are wise people and they don't fire their shots until they have to. And most countries that would retaliate would prefer to surprise you than to give you advance warning. They did not speculate but they just said very flatly because of China's reserve situation and because of the fact that they claim that we have run a 13 billion dollar surplus with them over 5 years, a claim that we dispute, they just say that they can't buy, they are just going to have to drop off their American purchases. You know, they have done that in the past. Unfortunately, the textile matter has been a very serious matter of concern for a long time. It has just come to a head now.

Question. In addition to grain, what other areas could they relatiate?

Answer. Well, they could just cut off our access into this country through their regulations and anything that we attempt to sell them. Obviously they are going to want high technology goods and wouldn't retaliate in the high technology goods unless they thought they could get the same product from Japan or from West Germany or the U.K. or from France or something of that sort. Retaliation is really an art—if they follow the retaliation patterns of other civilized nations. You know, we just had a recent dispute with the European Community over citrus and we started battling back and forth over pasta. One of the great ironies of the retaliation war is the war we got in over chickens with the Europeans in the '50s and ended up on French brandy and German Volkswagons and now its on that sort of thing with the Japanese. These retaliations are very nefarious types of things and they are very serious and innocent people all over get injured by them. I think there is plenty of room for them to retaliate. We have to take them seriously—these are very intelligent people.

Question. Did you or any of the members of the delegation—were you convinced by their arguments? Will you go back and argue against the Jenkins bill, anyone?

Answer. Of course I am not in support of the Jenkins bill. I would not want, I don't think any member would want, to admit that he would come to China and change his mind just from one talk. We are all more judicious than that. Mr. Carrol Campbell here is from the heart of the textile industry in the U.S. He probably has more textiles and Garments manufactured in his area of South Carolina than any Member of Congress throughout the U.S. He has met with them before and talked with them before and been to this part of the world before to talk this over, and he is one of the chief proponents of the Jenkins bill. But I don't go around and poll my members—I am more circumspect than that. I wait for them to come up and tell me, "I'd like to do this and do that."

Question. Could I also ask you about the balance of trade. It's become something of a propaganda war, hasn't it, on that fact. Did you make any progress or at least can you explain to us why they say it's a 13 million dollar deficit for them—the U.S. says it is the other way around?

Answer. It's the way we count and it is a problem throughout the world. We have the same problem in Europe. Let me give you a for instance: We put an awful lot of faith in statistics, and the closer you get to statistics, the more skepticism you have. For instance, let's take it out of this environment and then I will bring it back to this environment. If we ship something say to Europe, it lands in Hamburg, perhaps, and then it is reshipped on anywhere in the community, maybe even to Eastern Europe, maybe even to the USSR. These are goods (I am not talking about sensitive goods or anything like that, because we keep closer control of that), but Germany gets charged with all those goods. The same thing occurs roughly in how we count goods in Hong Kong for instance. Hong Kong is of course going to be China in 1997, and we've got some statistical quirks in the way they count and the way we count, we have just got to get together and figure that out. I would say that any goods that they ship through Hong Kong we count as coming from this country. Of course the Hong Kong currency is good hard currency and they are not being economically penalized by it, so these statistical aberrations and statistical disputes are always vexing, but I would think that the bottom line is getting hard currency for

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their goods. They prefer to keep books on a bilateral basis. That is their tradition and their right and of course we try to keep books on a bilateral basis as well as a multilateral basis, but those of us who worked in this field for some time know that their is room for legitimate dispute as to how records are kept.

Mr. FRENZEL of Minnesota. A lot of times when you are going through Rotterdam or Hong Kong or any place the goods do not have a final consignee at the time of shipment and we use what records are available to us such as bills of lading, invoices etc., but it is very hard to trace the goods and to be sure that in any one year your records are accurate. We believe that last year we had a slight negative balance of trade with the PRC; they think we didn't and there is an interesting point on which scholars and statisticians can argue to their hearts content. (And politicians).

Mr. CAMPBELL of S.C. Since the subject of textiles was brought up earlier, let me point out a couple of things: Textiles and apparel are the largest industrial employers in the U.S., larger than steel or automobiles. They are the largest entry level for minorities into the work force in the U.S. and there has been a tremendous disruption of the $150 billion trade deficit that we are running textiles accounts for 13 or 14. That is a lot of money—each billion dollar accounts for 25,000 U.S. jobs, so you can easily see the points of this overall. China, as you know, did not have a large textile trading base with us before 1980. They did have a surge in certain products. After having talked at great length with the Chinese textile people over the last few days and going through some of their textile plants, we discussed what Mr. Gibbons said: The fact that instead of concentrating on one type of cloth or one product in order to capture or penetrate in the marketplace they should be diversifying within these textile industries first.

Beyond that, Mr. Gibbons said they should diversify without and move away; in other words, instead of putting all of their total resources in the five-year plan, perhaps, toward upgrading and modernizing just textiles so that they can penetrate the world markets. They might look to other areas for development because we impressed upon them that to make this effort totally in textiles would invite very strong action because we would not be able to absorb it, and it would be disruptive in the market place. The Jenkins bill was put in after some 32 draft copies. As it has been said we have almost 300 sponsors in the House and in the majority of the Senate. It is specifically drawn. It is drawn to apply a set growth which would then give us a base today and then assign certain growth rates to each country. It is entirely possible in the process of making up this legislation under Chairman Gibbons that specific consideration would be given to extenuating circumstances that may have existed concerning a particular country, if of course that country is cooperative in working with us. We are not closed-mined on this, those of us who are sponsors. We are, however, closed-mined on the idea of doing something about the problem. We will do it. If it is done before we have a chance to mark it up by the Government through its negotiations whether it's using 301 or other mechanisms, then we will do it legislatively. That is our position on it. It remains our position on it.

My reason for being here with the invitation of Chairman Gibbons, is to talk with the officials in the country, to go through the plans, see what their potential might be. When I went through a textile plant here and I saw the Swiss equipment and the German equipment and the Japanese equipment, some of which was state-of-the-art, then it would make a question when we speak of an antiquated industry. Yes there are old machines in some of the companies, but there is an awful lot of modern equipment. This was the basis for the suggestion to them that they might not put their total effort in improving the textile industry so that they could capture a market there because that would cause the problem and the suggestion that perhaps they look outside. But it is serious to us—it is something that we intend to deal with one way or another because of the job disruption. The knowledge we gained in coming through China and discussing with them all of their goals and their problems will be very helpful to us as we go through the deliberate process on this legislation.

Question. Mr. Campbell, will China be hit harder than Hong Kong or South Korea?

Answer. It is possible because of the fact that they have a lower base using the formula that we have now used. The legislative process is long, it is deliberative—a sub-committee would deliberate over this legislation, a full committee would then deliberate over it and pass it, the House of Representatives would do the same, and then you would go through the same process in the Senate and then prehaps to a conference committee. So there is ample opportunity to take into consdieration any differences in a base that may have existed or any disproportionate impact that might take place.

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Question. Mr. Campbell, China has said this bill would violate a textile agreement existing between China and the U.S. Is that true?

Answer. I think that are trying to make that case and of course we can make a case in some other directions. I don't choose to pick the issue. Let me put it in this context for you. As you know, the Chinese have just listed a list of some 12 or 15 products on which they have put additional charges that range from 40 to 200. I think that if you look in there, you will find synthetic fibers and things of that nature. So, what I have to say to you is, they are looking out for their people and we will look out for ours.

Mr. GIBBONS. I misquoted awhile ago and I would like to correct it. I should have said China was not a member of the General Agreement on Tariffs and Trade. China is a member of the Multi-lateral arrangement. I regret that I made that statement—I hope you will correct it in your notes. Well—I am going to try to put the next part of my statement in perspective. I am astounded and pleasantly pleased at the growth China has made in the last 10 years. That's one of the advantages of coming at regular intervals—you can measure what is going on. It is a growth which when measured in statistics is astounding: A 12 growth rate, annual growth rate, is something that none of us can produce without serious inflation. They have moved from being an economy that was on the verge of starvation at that time to one that is now able to export food products and has ample domestic supplies. We have certainly noted the improvement in hotel conditions in town and are grateful for that. We have noted a great many more foreign business people and ordinary visitors here. All of this bodes well. The spirit of cooperation and friendship has always been strong. We are constantly pleased that no matter where we go in China, and we have travelled on other visits to Dalian and into the industrial area of China—we are always greeted not only with formal courtesies but with very personal courtesies by the people on the street, the people in the shops, the people whom we come in contact with. With that kind of basic relationship, we certainly don't want to do anything that would injure it. We look forward to cooperatively working with them.

Question. Did Vice Premier Tian give any indication on the financial picture?

Answer. No, but we are familiar with the fact that China is operating on very thin margin. And that they are trying to keep their external debt down. We commend them for that. After all, it is not always the borrower that gets into trouble when the external debt gets too high and he, of course, is concerend about the problem, as everyone should be concerned about the problem where you have a growth rate that is as high as this country's growth rate is. About inflation, he said that they would take necessary steps to make sure that inflation did not destroy their system. They appear to be conservative in their economic thinking. They are certainly not wild in their overall expectations and in their actions. They believe in steady growth and they don't believe in exaggerated miracles. I am impressed with them. I say that from a base of experience. I have had the opportunity of over some 15 years on this particular subject to converse with many of the leaders of most of the nations on Earth. The Chinese leaders are good. Thank you very much.

3. KATHMANDU, NEPAL, AUGUST 13, 1985

Mr. Sam Gibbons, who is the head of this nine-member delegation that's been visiting Kathmandu since Sunday afternoon. Congressman Gibbons is a Democrat from Florida and the Chairman of the Subcommittee on Trade of the House Ways and Means Committee. I think with that we'll turn over to Congressman Gibbons and say that this will be on the record and attributable to the Congressman.

Mr. GIBBONS. More than anyone else who speaks up, we are a very informal group. Let me say, I'm glad to start informally here this morning as we have because I think it typifies the kind of relationship that we have with Nepal. We don't have any problems, we don't want to create any problems. We would like to exploit all the opportunities we have to work together, become better friends—economic friends, and personal friends and of course political friends. But our mission here is a trade mission, essentially. We are the Trade Subcommittee of the Ways and Means Committee and we make the trade policy for the United States. Two hundred years ago when the United States was founded the people decided that the Congress should control external trade. Now that's rather unusual for a congressional body to do that but that's the way it's done in the United States. There are nine Members of Congres with us. There is also a member of the White House, a counsel of the President, Mr. Friedersdorf. I think his name is on the list. He's been in the White House for quite a number of different Presidents and he is one of the policymakers of the White House.

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We have had an interesting series of meetings with the public officials here. As you know we were greeted at the airport very cordially and warmly by members of the Parliament and of the Executive Branch or Cabinet, of this country. And the remainder of the afternoon, which was very short, we did tour the town some so we could get some flavor of what the local town was like. The next morning we started off at a breakfast briefing here by what the Ambassador calls a country team. We talked to everyone from the Peace Corps to the Aid Projects to everything that you can imagine that an active ambassadorial post has under it. They told us a great deal about the relationships here—about the challenges and problems that the people face and about what we were doing to cooperate and try to participate in that. We next went to the Parliament where we met the Leader of the Parliament, Mr. Sing. And had a substantial discussion with him about the Parliament, the way it functions, and we found him to be a very good leader and a very intelligent man who is up on all of the issues, not only in his own parliamentary body, but in the big picture also, around the world.

We next visited the Prime Minister where we had an excellent talk about more specifics of our relationship. We talked about the textile trade—we talked about what could be done to develop other trade. We made some recommendations—obviously hotels, like this are the first opening type of opportunity for trade because as you know, in the United States, most of our purchases are made, in fact the great majority of them are made, by the private sector of our economy. And they will come and stay in hotels like this and will have an opportunity to see goods and the kinds of things that this kind of economy can provide. So opening your country to tourism is the first step in opening yourself to greater American trade. We talked a little about the generalization system of preferences which is aimed by the United States to help developing countries and we gained some insight from he and Mrs. Shaw about what could be done perhaps to modify our laws so that a country such as this could take better advantage of them.

We then took a little trip out into the countryside to see the farming and rural activity—the reforestation, the problems of roads and drainage and infrastructure types of problems. Then after that, Mr. Frenzel and I met with the King. His Majesty greeted us warmly and we had an extensive talk about our bilateral relationships. He askes us to extend his personal greetings to the President of the United States. As you remember, he traveled the United States in December 1983, where he had a very successful visit. We there again, went over with him some of our suggestions that we thought would be profitable as far as helping his country. He talked to us about the water projects, about road projects, about the general infrastructure building of the country, and about the zone of peace that he wants for this area. Certainly as we have already signified in writing, we reinforced with our words that we are very interested in having the zone of peace here for Nepal.

Yesterday afternoon we had a meeting here in the hotel with most of the members of the Parliament. Practically all of them turned up here. We had some interesting, lively discussions on a person-to-person basis. I find, and the other Members find, that they are good advocates of their country, and of the needs of their country. And they explained to us in very clear terms and many of them have traveled in the United States as members of Parliament and many of them have gone to the international meetings of parliamentarians—so we had a very good hour and a half discussion with the members of Parliament last night here in the hotel. After that we went to the Ambassador's residence and had supper and said thank-you, and now we are getting ready to leave. Glad to answer any questions. Some people have come in since we started. Doctor Hart, back here, is with the legislative counsel's office—legislative reference service, research service, of the Library of Congress. He is one of our resource persons. This is Congressman James R. Jones of Oklahoma. This is Congressman Thomas of California. This is Congressman Frenzel of Minnesota. Congressman Schulze of Pennsylvania. Let's see—who else—we had Mr. Friedersdorf here, but he walked in and out very quietly. What would you like to ask questions on? . . . Frank?, Frank Phifer, of our staff.

FRANK PHIFER. We did have one additional meeting with the Minister of Water Resources.

Mr. GIBBONS. Oh yes. Excuse me. We met with your Minister of Water Resources and had a long talk with him about the plans and proposals and some of the problems that you can run into in developing a resource as large as you have here for hydroelectric power—for conservation and for irrigation. We found him to be a most interesting, articulate man and we were pleased to get to know him.

QUESTION. What is the prospect of U.S.-Nepal trade?

Mr. GIBBONS. Well, of course, in a land-locked country like this, as far apart as we are geographically, the trade will always be heavier with the neighbors than with a

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country like the United States. But, the United States has a history of absorbing from developing countries more of their manufactured or processed products than any other nation on earth. We absorb 58 percent of all of the output of the lesser-developed nations on earth. Fifty-eight percent. Our nearest competitor, I want to point out, is Japan, and they absorb only 8 percent of the processed products of the developing countries. So, our privatized, very decentralized purchasing system which we have in the United States, where the private sector goes out and finds products, leads them to countries like this for goods and services—particularly goods. So I think there are some trade opportunities. And we want to enhance them any way we can.

QUESTION. Has the Nepal government put some specific proposals . . . about trade between Nepal and the United States?

Mr. GIBBONS. No, we have no specific proposals. You know the United States has something called the generalized system of preferences. That's a system which is designed to reduce to zero the tariff barriers from developing countries of certain products. And that, as I said, is probably what makes us the absorber of some 58 percent of manufactured or processed products of developing countries. So, we don't have a specific proposal for Nepal, but this is our first visit and perhaps something concrete in that way will come about. We generally prefer to treat all peaceful nations on a non-MFN (Most Favored Nation) basis, in other words, we treat them all the same. We have found that that works best and works most even-handedly.

QUESTION. Sir, you mentioned . . . about the generalized system of preferences . . .

Mr. GIBBONS. Well, we have had the criticism in the past from people in our country as well as from other countries, that only a few countries are able to take full advantage of the generalized system of preferences. And maybe there is some way we can skew the system so that the very least developed, some of the very poor ones, like this, will get a less competitive shot at the American market. In order to keep products from less developed countries from completely overwhelming the United States, and as I say we take 58 percent of the world's less developed—products, we have limitations as to how much can come in. There may be some set-aside for the very very poor, ah, products. Maybe Mr. Frenzel, or some of my other colleagues, would like to . . .

Mr. FRENZEL. Yes, it is true, that under our system the most advanced developing countries are able to take best advantage of duty-free entry to the United States. We revised our law last year so that we would graduate out of the system the most developed of the advanced developing countries.

4. NEW DELHI, INDIA, AUGUST 14, 1985

Following is the transcript of the press briefing given by Congressmen Sam Gibbons, William Frenzel, J.J. Pickle, Beryl Anthony and Donald J. Pease at the Taj Palace Hotel, New Delhi, on August 14. Attending the press briefing were four Indian journalists and three American journalists—from the Washington Post, Associated Press and United Press International.

Congressman GIBBONS. Thank you for inviting us to come and visit with you, and we're happy to. We are the Trade Subcommittee of the United States Congress in the House of Representatives. Perhaps you don't know that when we got through fighting our revolution with the British we had a little trouble deciding who would control trade, and Congress decided that it would control trade and that's unique in most parliamentary style democracies. Though we control external trade, we work through the President; we set the policy, he executes and we have a Trade Representative, Ambassador Yeutter, who is a new man on the job.

We came to India because we hadn't ever been here, most of us, and because we don't have any problems, and we don't seek to create any. We are proud to be India's largest trade partner, and we hope to continue earning that right as we go along. We have met a number of your officials today. This is one of a number of stops we are making in what we call the Pacific Basin. Now we realize that India doesn't face on the Pacific, but, since we were in the Pacific region, it was a good reason to come to India, and as I said, we don't have any problems with you, we don't want any, but we do seek better relations. We do have problems with other people in the world.

America runs the largest trade deficit of anybody on Earth. Our trade deficit last year in merchandise goods was 136.5 billion dollars, almost 137 billion dollars. This year it is running at the rate of 150 billion dollars. We absorb more of the output of the developing world than any other one country on Earth. We absorb 58 percent of all the goods of the developing countries; we buy those. Our nearest competitor is

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Japan and they only absorb 8 percent of the developing countries' goods. So a lot of our deficit is caused by the fact that we have opened our markets very wide and we buy on a non-discriminatory basis. And we buy the goods of the third world as well as buying goods of anybody else that seeks to sell in our market. Just about. We have some problems. Most of them are political problems, but political problems, you know, sometimes drive economic decisions. And the political problem we face is that we are getting so many textiles, and our textile industry is in such bad shape that our textile and garment industry sought extraordinary protection. And of course there is a bill pending in the Congress called the Jenkins bill—its impact will be to cut the textile trade of India back by about 15 to 18 percent. It may become law despite the opposition of some us in the room. Not all of us are opposed to the Jenkins bill, but it is a problem. And we wanted to discuss that frankly and freely with your people, let them understand why we had that problem.

We figure that every one billion dollars worth of imports is equivalent to us losing 25,000 jobs. Even for a country the size of the United States, that is a substantial push upon our job opportunities. Certainly we have high employment rate compared to, say, a country like India, but our employment rate is not nearly as high as it is in Japan or as it usually is in the European community. So this kind of dislocation puts political pressure on us.

One reason textile and garments put such a political pressure on us is that textile and garments tend to be spread almost throughout the United States. They are heavily concentrated in the South, but the Garment Industry is all over the United States. This is the industry that could potentially cause very serious trade frictions with many of our trading partners.

We are here to answer your questions. And my colleagues here are better prepared than I am to discuss these matters with you.

Congressman FRENZEL. That's not true, but we do it anyway. One of the reasons we came here, too, was that your Prime Minister has been a recent visitor to the United States and he addressed the Congress, and as Chairman Gibbons has said, he gave what many of us thought was the best address before the Congress of any head of state in our memory. And the story he told was the opening up the economy of India, deregulation; I suppose we would call it more initiative for private enterprise—that sounded like it would be a good thing for American industries, that we would have more opportunities. While we were not fortunate enough to be able to talk to the Prime Minister, which was a great disappointment to us, we did get the sense from talking to other public officials that what the Prime Minister told us is indeed true. And we get that same sense from business people in India that there is a new period of opportunity for private enterprise. That's part of the story that we are going to take back to the United States.

S. SETHURAMAN of Press Trust of India. You said that you have no problems with India on the Trade Front. But I think India has some problems. What were the problems given to you in your talk with the Commerce Minister today and how did you deal with them?

GIBBONS. You are in surplus with us. He (Commerce Minister V.P. Singh) mentioned the fact, of course, that India was a developing country, needed markets, needed capital, needed technical assistance and things of that sort. We assured him that our Government was eager to provide those. We do most of that really through our private sector. It was a very congenial meeting.

Congressman DONALD PEASE. We did talk at some length about the textile restrictions, and we tried to point out the political realities in the United States which are driving that decision. Most of us are not sponsors of that particular bill; we are not very happy with it, but on the other hand, Americans are losing jobs. and we are a democracy; we have to respond to our constituents just as Indian parliamentarians do.

PREM SHANKAR JHA of the "Times of India." You have, I believe, as many as 300 protectionist bills at this moment.

GIBBONS. I know that.

PEASE. They are all in his pocket.

JHA. You are even thinking of a flat 25 percent surcharge on everything from Korea, Taiwan, Japan, Singapore, Hong Kong, Brazil.

Congressman BERYL ANTHONY. That was triggered in after those particular countries failed within a year to reduce by five percent only their imports into the United States.

JHA. What worries me is that this is conceived as a temporary measure which is required to give time for the U.S. economy to adjust gradually back to a more healthy situation with respect to its exchange rate, where I think most of the problems start. And when you hear that Danish oats—if it was Indian I would under-

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stand for at least we are a low-income company country—are selling more cheaply in the Midwest than American oats grown next door, then there is something wrong with the exchange rate. If it is a temporary measure, I think most people would understand—nobody wants a spasm in the U.S. economy. At this moment I don't see any kind of statement or qualification on this protectionist thrust. I have three questions. First, how far will you be able to stem this protectionist spate? Second, to what extent can we tie this up with the resumption of a new round of GATT talks? Third, failing this, where do you see us going in the exchange rate, interest rate front?

GIBBONS. If we had a solution to the exchange rate we would have already done something about it. Obviously, reducing our own fiscal deficit, we believe, will do something about the exchange rate. The exchange rate is not the whole problem. Japan's yen has appreciated against every currency on Earth except the dollar and yet Japan is not flooded with imports. Japan, in fact, has a favorable balance of merchandise trade with every country on Earth except those that supply petroleum. And if those people don't watch out, they (the Japanese) will have a favorable balance with them soon.

So, it's openness of market to some extent. Now, in a developing economy like yours we can understand that from time to time. In order to preserve exchange and to husband your reserves properly, it is necessary to set priorities as to what you will import. But Japan is the second richest country on Earth and yet it maintains some very impenetrable barriers to selling goods in its economy. We are also running into trouble with subsidized goods. Some of the economies have been just told to export, export, export and close your markets to imports. We have been absorbing a lot of that—imports from those countries—and we can't continue to absorb them, frankly. but, we do need another round of negotations through the GATT, mainly to establish appropriate procedures for strengthening the GATT, for appropriate dispute settlements. We are frustrated. You know we have had a case for GATT for 17 years in which we have had a favorable GATT approval all through the place and nothing has come of it. Now, if a country of our size can't get any kind of results in GATT, there is something seriously wrong with the dispute settlement mechansim. We also want to open up opportunities for the services to spread. Services are the lubricants on which trade moves and we have no real good international rules on services. Frankly, before we develop too many bad practices in the services area, the growing power of the world economy, we thought we ought to develop some rules. Now we are not talking about services like hair cutting or that kind of personal services. We are talking about insurance services, banking services, communication services, transportation services, all those things that are the lubricants for the world economy. Restrictive practices in those areas can be as pernicious and injurious to the world economy as restricted practices are in tariff barriers and non tariff barriers.

ANTHONY. I would like to make one additional comment. I happen to be the cosponsor of the piece of legislation that you mentioned. We are not only looking outwardly to try to solve the problem, we are also looking inwardly. I happen to disagree with our current administration's policy of non-intervention in trying to bring our exchange rate more in balance with other countries. The administration only on two separate occasions and in small amount had intervened to try to stabilize the balance. Part of this legislation would look inwardly and will set up a commission. It would ask the President through the Treasury Department to look at the mechanisms whereby the strength of the dollar could be stabilized. When I say stabilized, I am saying, lose some of the 40 percent overvalue that it now presently has. So I personally think that it is the balanced piece of legislation. And it does not immediately put on 25 percent surcharge. It says to the world we have problems—it's a political problem, it is an economic problem. We will try internally to do our share, but we're asking our trading partners to work with us in the next 12 months. Also help bring this world imbalance into some type of rational international trade system.

FRENZEL. I would like to answer two of your questions. One is how can you ask for another round of GATT with this protectionist attitude running. My answer is with the 137 billion dollar trade deficit, we have the cleanest hands in the world. We are the ones who are absorbing everyone's exports, taking them as imports. And there is no other country in the world who can with greater merit or worthiness ask for another round. We asked for one in 1982; we are stonewalled by EEC, by your own country as well, which was not anxious to make improvements. We hope with the new administration here, there will be a more forward and outward looking policy with respect to the GATT and with respect to the multifiber agreement, about

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which again your country has expressed reservation about starting discussions early.

The other question was what's going to be the result of all these protectionist bills. And if we knew that we would go to Las Vegas and starting placing bets. We don't. All of them have a long way to go. Clearly the protectionists are in the majority in the United States and in the Congress. Whether their basic urges will be gratified by legislation is as yet unknown. The administration opposes surcharges; it opposes textile quotas. At this point we don't know. Part of the answer lies in the rest of the world's response to our request to go into GATT with some serious intentions for liberalization. If there is a good response, our administration will be much stronger in working to curb the Congress' protectionism. If there isn't much response out there, then the President may of course look to other things rather than to fighting the Congress about protectionism. The story is going to be told in the next year or year-and-a-half, and at the moment we don't know the answer, except to say that protectionism is in the ascendancy in the United States.

RAGHAVAN. What about the fiscal side of it? It is not nearly a question of exchange rates and others putting up import barriers. There is the other side of the coin, which is your huge deficit which has a lot to do with this. What kind of pressure or pressures is the Congress able to put on Mr. Reagan?

GIBBONS. We set a budget goal the day we left the United States, reducing our deficit by 56 billions dollars this coming fiscal year that starts in October. Frankly many of us wish we could have gone further than that. But as I pointed out, it is not all fiscal deficit that drives us, grant you that's a substantial portion of it, but it is not all that. Or you couldn't explain why countries like Japan have fiscal deficits that are as high as ours in proportion to their gross national product and their yen has appreciated with just every currency except ours, and yet they go merrily along their way in saying that they are an open society and nobody can criticize the way they act. Frankly most of our problems are with the Japanese. No one in the United States Congress has defended the Japanese longer and stronger than I have, but I must admit that, as chairman of the Trade Subcommittee, all of those bills that you talked about are in my committee, are sponsored by members because of the frustration that we seem to be getting nowhere at all with the Japanese. Every year our deficit with them continues to grow. And they still act as if they were a developing country in their importation policies and in their practices which are harder for us to understand than what they put on paper.

PEASE. I want to add just to be frank in terms of my own feelings that our fiscal problems are serious; we are in impasse in Congress, in the country frankly. Many of us feel in addition to budget cuts to bring our deficits down, there has to be some additional revenue. The President is dead set against additional revenue. Mr. O'Neill, the Speaker of the House, is dead set against cutting back in Social Security and other domestic spending. That impasse threatens, I think, the fiscal stability of the Nation. That having been said, it is still true that our lack of responsibility, if you will, in the fiscal area is still just one factor as the chairman has said. And there are others that have to be taken into account as well.

PICKLE. Let me put a little different touch to this. We met with the Chamber of Commerce business group this morning and with two or three of your ministers today and a couple of businessmen this afternoon. I sensed a very warm, friendly cooperative attitude. The business people seemed, and the administration people seemed, eager to want to open up the trade and to have a stronger relationship with us. I was particulary encouraged about the interest they are showing in the telecommunication and high technology industries. I am told that one of your biggest problems is telecommunication and our major companies in the United States are positively working with your Government to try to get in an expand that field. So I envision very expanded trade in the areas of telecommunication and high techology. That will be good for you and good for us. So I am encouraged. I don't think we've got problems but there is in other parts or world more than with India.

JHA. That actually, in a sense, ties up with what I am going to say. What we seem to be interested in in the U.S. is in fact the technology side. Where you have technology, which is absolutely the very best you can get and Indian companies want to get in there, they are prepared to pay the price. But you know that's a specific kind of thing. It is really the purchase of know-how, in fact the attraction of direct investment from American companies in equity basis. In these sort of hard core areas of trade, where in fact the bulk of the dollars move, if you like, it seems that we have three interrelated problems here. One is I won't deny for an instant that you have specific problems with some special countries, Japan being on them, although the Japanese say that well, you know, your businessmen don't try enough to understand the local market. And one example was given to me when I was in Tokyo, in

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fact it happened right then, that on the day that the Japanese opened up the telecommunications market to American companies, not one American company had a brochure out in Japanese at that time.

GIBBONS. Wait a minute. You don't now how long we have been negotiating with them on telecommunications. Mr. Frenzel and I started when we were little boys talking to them about telecommunications. They would give you that garbage every time. It is not so. They have the gall to tell us that our telephones won't even work in their system. I say I have got a Japanese telephone in my house in Washington, DC, and it works all right. And you can't tell me our systems won't work.

Mr. FRENZEL. The chairman of AT&T is about 83 years old. Mr. Gibbons and I have known him since he was in short pants. And we have been beating on his door forever. And we have had great difficulty. We have written brochures and requests in Japanese, in Hindi, and sanskrit and on runestones. It doesn't make a dammed bit of difference to the Japanese. They don't buy it.

JHA. Japan is definitely a special problem. There is enough evidence on their non tariff barriers for anyone who wants it. And the fact that the Koreans tend to copy the Japanese gives you a very good window into how the Japanese operated and continue to operate even today.

Mr. GIBBONS. Korea is, I am not defending Korea, but Korea is a developing country. (Jha: Yes, they have enormous problems) and we will have to sit down and talk with Korea when they get developed. And they are going to be developed pretty soon. We don't want them to continue acting like Japan. Japan continues to act like a developing country. It's built into their psyche.

JHA. Conceding that, there are two still general problems that come up. One is that there is a strong interrelationship between the trade and debt servicing problems. The two countries that you are are thinking are of basically really are Korea and Brazil, which have very heavy, huge debts. And which have cut back very heavily on imports, well Korea has always been pretty closed. But Brazil has cut back very heavily on imports, Mexico is the third. They have been able to export while cutting back on imports. They are therefore lightening one burden, while in fact imposing another one, alright? But you can really blame them because both go back to the same problem which is very high interest rates they're having to pay even today. I think, unfortunately, so long as we keep coming back to the central problem that you are going to trade one set of problems for another, even with temporary protectionism, however softly it's administered, you are going to accentuate the debt problem.

The second one the Japanese raise in Seoul over and over again and to which I have never got an answer . . .

Mr. GIBBONS. May I go back to that. I don't want you to label us as protectionist. We are not. When we talked to the Japanese, we do not talk about them limiting their exports to the United States. We say just give us the same opportunities in your market that you have in ours and, two, we say don't just buy from the United States, buy from the rest of the world. You've got to be a responsible trading partner as well as a successful trading partner. Our conversation with the Prime Minister, our conversation with the Diet, and our heated conversation within Japan, where we think our biggest problem lies, the Prime Minister has tried to do a real fine job in opening up the markets, but the business community in Japan does not want to face the competition—that is the basic problem. They want to export, export, export. They don't want to import. We told them not just open up to the United States, open up to everybody.

JHA. What they say is that with the kind of exchange rates that you have at this moment, market access alone will not give you. . . .

GIBBONS. Now, that's not so. The yen is higher than we would like, but the yen has not depreciated that much against the dollar. There have been many times in the past when the yen and the dollar were further apart than they are now. And that's just a bunch of political propaganda that they put over there about the yen and the dollar. The yen is only slightly lower than its normal value.

JHA. It is just really who does what first, which comes first the chicken or the egg, seems to be the problem today.

ANTHONY. Could I take a crack at that. I think you have got talk not only the economic side of trade, but the political side of trade. And I can give you a perfect example that this delegation has talked about at our various meetings. It is one of your major purchases that will be made in the coming weeks, and that is in the transportation area. You are either going to buy aeroplanes from Boeing in the United States or you are going to buy the Airbus from a consortium. It is our fear, and it is my special fear, inasmuch as I have supported legislation in the Ways and Means Committee that would give us the identical tools to fight the soft financing

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competition that we know we are going to be up against with the Airbus. When the bids are analyzed, and if we lose that, we feel that we will lose because those consortium countries will be subsidizing with various types of credits and soft loans. Low interest rates, subsidized, something that our companies are not allowed to do, our Government will not permit them to do. If that occurs, all that it will do will be like throwing gasoline on an already burning fire. We have 290 cosponsors of the Jenkin bill. All that it will do will be to create more pressure on Chairman Gibbons to move a piece of legislation or there will be movement in the Congress to discharge his responsibility from that piece of legislation. That will also create pressure to move the, what we refer to the Rostenkowski-Benson bill, that is the reduction of a 5 percent and 25 percent surcharge. So you have got to talk about the politics of it. It is almost like which pain you are going to take of first. You don't take care of the pain that is hurting the most, and right now it is the trade that is creating the problem. So we will put some salve on the trade problem, and then we will worry about these other problems as they begin to develop and they begin to be painful. I think you are correct. It is the chicken and the egg and I don't whether trade is chicken or egg, but I think trade is where we are going to pour some salve. That's my political judgment. I think you will see trade legislation passed out of the U.S. Congress before this year is over with.

GIBBONS. We didn't come here to sell Boeing airplanes, but we hope that it is judged on the merits of the airplane and of reasonable financing. I have always found that if you buy something, you usually get what you pay for, which is a short change. I didn't know Boeing was trying to sell you any airplanes. We are not here to sell airplanes.

ANTHONY. All I meant in comparison was that if our competitors are going to have the ability to use these types of financing, then I am saying that we have got to have the same types of laws on the books in the United States. Then the decisions will be made on quality and service afterwards. Airbus has already defeated Boeing in some other markets.

Congressman PICKLE. I want to conclude my part by saying that when I looked at the QUTUB yesterday, that's the most miraculous thing I have ever seen.

JHA. I think any legislation that comes in now should be clearly time bound.

ANTHONY. I couldn't agree with you more. I think anything that's done has to be phased in or phased out, and a five-year period will be a good adequate time to do it.

GIBBONS. We do not blame any one of our problems with India. Let's conclude on that happy note and we wish that our relationship around the world with other trading partners were as good as our relationship with India.

5. BANGKOK, THAILAND, AUGUST 19, 1985

Following is the transcript of the press conference given by Congressmen Sam Gibbons, J.J. Pickle, Beryl Anthony, Donald Pease, Bill Frenzel, and Assistant to the President for Legislative Affairs Max Friedersdor in Bangkok, Thailand at the Oriental Hotel, August 19, 1985. In attendance was a large contingent of Thai journalists and foreign correspondents including AP, UPI, WTN, XINHUA News Agency, Jiji Press, CBS, ABC, and the Washington Post.

Chairman GIBBONS. Thank you very much, and we're happy to be with you this afternoon. We will stay as long as you wish to answer your questions. We apologize for being late but we have had a very interesting meeting with the Thai Trade Union Congress who represent many of the workers involved in this. At that conference we had to use translation that took us longer than we expected. But we have had a very profitable meeting and briefing sessions with your Government here in Thailand today. Believe it or not, we didn't come here to talk about textiles, but that seems to be the topic of conversation in Thailand. We came to talk about other things. To talk about the future, to talk about how to build a world market system, how to raise the standards of living of all people and what we could do to better improve our trade relationships. We hope that as time goes on that the problem we now have over the so-called Jenkins bill will solve itself and we can go forward from that point and have better trading relationships.

I've read many of your newspaper comments here in the local press. The Embassy has been good enough to collect them for me over a great many months and send them to me and to all the committee members. Those that were not in English were translated for us, and so we're pretty well informed about how you feel about that particular piece of legislation. And how the press feels and how the people feel. And as I say, today we have had a discussion with everybody including the Prime Minister over this particular matter.

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We came to the Pacific area because we want to build better relationships with all of those in the Pacific. The Pacific is the dynamic area of the world that is increasing in size, increasing in economy, increasing in its flexibility in meeting its problems. In a word, it is the coming area of the world. And we are part of the Pacific, and we want to work and earn our way and share with you the rising standard of living that will come from our cooperation and enhance our friendship. We know that the people in Thailand have long been our friends. We know that the people in Thailand have stood with us during very tough times—some during World War II, some in Korea, some in Vietnam. Certainly now we know that you're a frontline nation in Kampuchea and that you are in a very exposed position, and you're carrying quite a burden. We applaud you for that; we thank you for that, and we want to assure you that we stand by you.

The Jenkins bill comes about not because of Thailand. And, in fact, Thailand is only a small part of the American textile imports. As you correctly pointed out in many of your news columns and many of your editorials the Thai exports of textiles to the United States is less than 1 percent of our consumption of textiles. The trouble is that when we add all the 1 percents up in the world, we get an awful lot of consumption of textiles that our workers are faced with.

Also, we recognize that as far as Thailand is concerned we are now purchasing some 37-38 percent of your textiles, and that we are a large, large portion of your market. We are your largest customer. We would like to continue to be so. Our problems start way back, and I don't want to give you a long history lesson, but our problems start way back. Following World War II, we did the best we could to try to rescue countries that were in extreme circumstances as a result of the war. We opened our markets broadly, and we did all that we could. For a long time that worked very successfully to everyone's benefit—to our benefit as well as to other countries' benefits. In recent years, our trade deficit has skyrocketed. For many years, we were able to offset our trade deficit by balance of payments surplus, but no longer are we able to do that. We are now runnning a balance of payments deficit of about 120-some billion dollars a year—123 billion dollars a year—and we're running a trade deficit that now approaches 150 billion dollars a year. And unfortunately, no one sees the light at the end of the tunnel. Now, in all fairness, part of the problem is ours, and a part of it can only be corrected by us. But some of it must be corrected by all of our trading partners. It would be unfair to ask a country the size of Thailand to share more of the burden than they should.

I hope that you all will have questions that you will ask of us. Some of us on this panel are not supporting the Jenkins bill; others perhaps may be. You may address your questions to any of us and we'll be glad to respond as best we can. The floor is yours. (Pause) I never saw such a quiet group of journalists in my life.

I understand that you've been telling the Thai Government that we have no chance. The bill will pass the House. But is there any possibility for a compromise? A change, amendments?

JENKINS. Well, of course, all those things are possible. But we did not come here to bargain with the Thai Government. We are not the bargainers for our country. We are the policymakers, and we do not have the power under our Constitution to bargain. Anything is possible in the American political process and the congressional process. But in order to not mislead friends, we wanted to tell them the truth as we saw it. The Jenkins bill has far more sponsors than it needs to pass the House. It has more sponsors than it needs to pass the Senate, and it will become law unless the President vetoes it, and the Congress does not override his veto. Now, I may be going too far for some of you who are not experts in American political science, and not everybody is. But that's the way the situation works. The bill is open for amendment. It can come up at any time in the Congress. It probably will come up in October or November of this year. But let me say—and I hate to make this kind of statement because I don't want to ever mislead anyone—I think somehow we will work this matter out. And I say that with a lot of concern because I don't have a plan as to how to work it out. One of the purposes of this trip was to try to develop ideas and plans as to how that can be worked out. Perhaps we can, but I have a feeling from many years of experience in the Congress and from the deep concern that I find about this legislation in this country, in other countries, and in our own country that somehow we can work this problem out.

QUESTION. Could I address this question to Mr. Anthony please? Congressman, you're one of the cosponsors of the bill? Is that correct? You've been on this trip now and you've seen what the situation is like here, what the effects of the bill will have. What are your feelings on that and do you still hold the same position?

ANTHONY. I come feeling that I am a friend of Thailand. I come trying to learn facts. I want to be helpful and not harmful. But you ask a direct question. Now

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what would be the side effects? Your people have told me that if the bill is introduced in its present form, that one hundred thousand people would be laid off. Just recently in my congressional district, 400 workers, mainly women, lost their jobs when a textile plant closed. It closed due to imports. So I have sympathy for 400 families in Arkansas. I would have sympathy for 400 families in Thailand, if they lost their jobs. My constituents are as devastated by not having a job as your people would be by not having a job. I would echo the sentiments of the chairman. I would hope that some compromise could be addressed so that your concerns could be relieved, and at the same time, the pressures that I find put on me as a politician, could be relieved. But let me tell you why I am a cosponsor of the legislation, and it is not because I woke up one morning and looked at the map and said, I want to punish Thailand or Thailand's textile industry. I represent a State that raises rice, cotton, soybeans, poultry. The main cash crop is soybeans. Soybeans are not allowed into your country. My State is the No. 1 producer of long-grain rice, the same type rice that you produce.

In the last three years my rice farmers have lost 29 percent of their world market. Your Government has gained 50 percent. Just recently your Government, without consultation because they needed revenue, increased the duties on wheat and cotton which my State exports. As a result my State will sell less cotton and less wheat. You are worried about a piece of legislation that is just pending in the Congress and saying that we are protectionists. I would almost throw the question back and say, are you being consistent? Are you not unilaterally saying to my constituents, we're going to make it harder for you to come into our markets. Albeit you had a valid reason because you needed revenue, but then at the same time criticize us for trying to address the very same concerns for the people that we represent. It is a complex and it is a difficult issue. I have learned many things on this trip. I think I will go back a wiser Member of Congress. Hopefully, I will have some better solutions. Maybe I will have some suggestions how we might get over the hurdle. But I think the bottom line is this: The economic engine in the United States is running out of fuel. And I think you're going to have to understand that, and that there are going to have to be some adjustments made. We have absorbed all we can absorb without it creating not only political problems but economic problems. And I think that is the one message that I want to leave as one Member of Congress who has expressed support—to be tolerant of the circumstances that we are caught in and together let's try to reason our way through it so that maybe there would be a shared sacrifice, and the sacrifice will not fall solely on my constituents. And to be quite blunt and honest, after I've made this trip I think we're all going to have to join hands and tell the Japanese they're going to have to open up their market. I have looked at your numbers. You had an increase in 1980, 1981, 1982, 1983 and 1984 and the first five months of 1985. You look at the numbers in Japan and you have a net loss in penetration of the textile market into Japan. Yet just this year we're absorbing 36 percent of your total output. That tells me something is wrong. I will go back, challenging the authors of this bill to see what we can do to make sure that the Japanese understand that they're going to have to open up their markets. If there is any one thing that I've learned is that they are definitely part of this entire international trade problem that you may be experiencing the most severe difficulty from.

GIBBONS. Let me make a couple of points that I failed to make the first time. And I thank Mr. Anthony for his fine answer. I told you that we were running a trade deficit of 150 billion dollars a year. For every billion dollars worth of trade deficit we have, it costs our workers 25 thousand jobs--25 thousand jobs for each billion dollars. That aids up to 3,700,000 jobs that our workers do not have. Now, that causes a lot of political pressure in the United States. That dislocation causes a lot of political pressure. As we look around we absorb 37 percent of your textiles. The Japanese absorb . . . does anybody know?—two percent? And yet, we find their products all through your market. Now, they make good products, and I don't blame you for buying them—we buy so much of them that it's about to ruin us all. But we cannot go along and do that all the time. We must have them absorb more products of developing countries. They are the second richest country on Earth. They have a large surplus of capital that they can lend out to everyone on the Earth, but you end up having to buy their products in order to get that capital. It is costing us jobs, and it's costing us political stability in our own country. We told that to the Japanese. We didn't just tell it as Americans asking for their help. We told them that they needed to help all of the world. There is not a country on Earth that they do not run a surplus with except a few of the Arab oil exporting countries, and pretty soon they'll be running a surplus with them.

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QUESTION. Mr. Gibbons, at this very juncture what is your assessment about the possibility of a Presidential veto on the Jenkins bill? And if, indeed, there is a veto what is the possibility of it being overridden by Congress? Thank you.

JENKINS. Good question, and I'll try to make a guess. The President of the United States normally does not express his opinion on a piece of legislation as to whether he will use his veto power until it reaches his desk. There are many reasons for that, and they are good reasons of strategy for a President preserving his power. It is my guess that this President will veto this bill. This President has stood for open markets. This President's Cabinet—his closest advisors—have said that they oppose this bill. So I would imagine the President would veto the bill. On the question of override, unless votes change in the House of Representatives, the President can be overridden in the House of Representatives. But in the Senate, unless the supporters of this bill are able to pick up more votes, they cannot override the President's veto. Now, that's my best guess. Yes sir, Mr. Pease wants to elaborate.

PEASE. If I might add something, I think the chairman's assessment is basically correct. But I would have to warn you all that if the timing is such that the bill were to pass in the spring of 1986 and the vote on overriding the President's veto would come up in mid-1986 at about the time that 32 Members of the U.S. Senate are running for re-election that there might well be the votes in the Senate to override the veto.

GIBBONS. Now there are other things going on. The negotiations perhaps to renew the MFN are scheduled to start in earnest in October. They may be successful. On balance I would have to say that I am optimistic about the outcome of this, but not overly optimistic.

QUESTION. I'd like to ask any members of the group what they think the chances would be that eventually a compromise could be worked out in which the ASEAN producers, like those of the Caribbean group, would be exempted from the provision of the Jenkins bill, particularly as they are new in the exporting business—in textile exports. And it would be hard to argue—I think Mr. Anthony maybe could, but I would be interested in how you would defend, in effect, putting a heavy burden on these countries that only have a small share of the American market.

GIBBONS. You are correct. The ASEAN countries are not big exporters of textile to the United States as far as the United States market is concerned. And Indonesia would receive an even greater cut than does, under the Jenkins bill, than does Thailand. I'm not the author of the Jenkins bill, I don't know what went in their mind in putting it together. I want to say in their defense, I do not believe them to be malicious people and I do not believe that they were aiming at any particular person or friend. I think they had to put a bill together in which they could get a coalition to get as many votes as they have been able to round up and it comes up looking like a pretty unusual piece of legislation. I think the bill is more a result of their driving desire to get it passed, in almost any form, and to get relief than it was to try to make a lot of humane or political decisions about how they apportion the burden. And, I have questioned them a number of times about why Canada and the European Community and to some extent Mexico, and the Caribbean Basin are all exempt.

I get varying responses on that. As to whether a compromise could be worked out to exempt ASEAN, I'm afraid if they did that, if we tried to present them with something like that, that they would turn us down because they knew their coalition would just fall apart.

FRENZEL. It's also good to remember that CBI is not exempt from the restrictions of MFA. And, if some sort of veto threat or actual veto is imposed, MFA negotiations will go forward as we expect them to. It probably means that producer nations will have to be satisfied with a good deal less than they have done before, but it doesn't mean, I should suspect, that there will be any of these 50 percent or 80 percent reductions, but I think that the arrangements that might be made are likely to occur in that forum rather than in some invented or compromise bill that might pass the Congress.

GIBBONS. Let me introduce Mr. Pickle of Texas:

PICKLE. I simply want to try to clarify a feeling that you might have. This committee is not here on any Japan bashing mission. Our concerns expressed about the Jenkins bill is not an attempt to ask the nations to get at Japan. There's been a bill introduced in the Congress now that would specifically say that there would be a 25-percent export fee against Japanese industries if they won't change their trade practices. This committee hasn't supported either one. I haven't supported either the Jenkins bill or that bill that's been introduced, but I'm rather sympathetic to both. The United States is in difficulty now financially and we've got to have the help of all the trading partners, that particularly means Japan now because we must cut

back and you've got to help us. So we are here looking for understanding, both of these bills is that have been introduced though are simply symptomatic of trading difficulties throughout all the world. And we ought to recognize it. So we're out here to engage in Japan bashing but to say to them in rather strong terms that they've got to give some leadership in this field also, and I hope that they will.

ANTHONY. Mr. Chairman.

GIBBONS. Yes, sir, Mr. Anthony.

ANTHONY. Since my name was mentioned specifically in the response I would just like to quickly tell you how one politician thinks. How would I go about defending it? I would go buttonhole my colleagues on the floor and I would say—unilaterally, Thailand imposed a duty increase of 100 and some-odd percent on cotton, wheat, wheat-flour, has a state monopoly on tobacco and won't allow any of our cigarette companies to sell into Thailand, won't give a license for us to manufacture in joint collaboration with any of the Thai industry. I would say that they will not give an import license to import soybeans and I would say that we're very nervous about their copyright, trademark, and patent rights as far as protecting our intellectual rights, when we bring them into Thailand. And, I would say when on the other hand, and I would quickly read off the numbers, and I would be happy to make these numbers available to any of the press because the numbers came from your own Government. The source was the Bank of Thailand and the Thai textiles association. The numbers show that textile exports to the United States increased from 1980, 1981, 1982, 1983, and 1984, and in 1984 you had a 39-percent increase over 1983 and in the first five months you had a forty percent increase over 1984. I would say they are small in the total but look at that trend, that's one, two, three, four, five, we're in the sixth year of a dramatic trend. If something is not done today, that trend will continue and so I would say we need to do something today to protect our worker for the future. Personally, I believe I could get a lot of votes by making that very quick summary. Where would the compromise come? If the Thai Government suddenly recognized that there were some problems here and if they made some corrections, then maybe I could go back to my colleagues and say, we were there we were making these statements. There has been some response, maybe now is the time to compromise. I'm a lawyer by trade. The Democratic way of passing legislation is to compromise. I don't like confrontation. I'm willing to compromise, yes. So far there's not been an offer made.

GIBBONS. But let me say, it's gonna take a lot more than just Thailand. As I say, Thailand is a very small part of the American market and we have a bill that is addressed to a very, very large market.

PEASE. Mr. Chairman, if I might add one point in elaboration of what Mr. Anthony just said. No one knows what the course of legislation will be—when the compromises will come, if they ever come. But if they do, the question is, should an exception be carved out for Thailand or for the Asean countries? Then the answer to that will depend to a great deal, or depend to a great extent, on whether someone can make the case for the Asean countries being different from others around the world and to the extent that the grievances that Mr. Anthony has just outlined are addressed, would be easier to make that case. For example, on intellectual property rights. There is a basic American feeling running throughout our whole society that it's just not fair to take the product of somebody else's labor and imagination and steal that and make copies and sell them without compensating the person who came up with the idea. That runs very deep in the American psychology. To the extent that the Asean countries could lead the way in stricter laws on intellectual property right protection, and could lead the way on the enforcement of those laws, that would give some of us a reason to argue in favor of an exception or special treatment for the Asean countries, if and when we get to the point where compromise is being talked about on the Jenkins bill.

QUESTION. Mr. Gibbons, where has the group been prior to Bangkok, where are you going next and when do you get home? And also to everyone, have you been shopping yet and what have you bought?

GIBBONS. Well I haven't been shopping, I've been reading briefing reports and reading briefing reports. I assume Ms. Gibbons has, and I'll find out what she's bought when I get home and start paying the bills. But, we started this, this is a Pacific Basin trip. It is not our first trip to Thailand; it is not our first trip to the Pacific Basin. Mr. Jones came out here, Mr. Jones unfortunately is ill this afternoon. We've all got travelers stomachs and he held out until we got to the Prime Minister and then his stomach got ahead of him. Mr. Jones came out here in 1962, and then he came out in 1965; Mr. Friedersdorf and I came out here in 1976. I was back in '81 with Mr. Friedersdorf, in fact, everyone on this panel except Mr. Pease and Mr. Anthony. We've been out here a number of times and met with your offi-

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cials a number of times. We think the Pacific is the coming area of the future. And as I say, we want to be of help, be included in the Pacific because we are in the Pacific with all the rest of you. (One of my colleagues reminds me he hasn't got but an hour to shop and he's falling behind.) We started in the Pacific Basin country Canada. We have some serious trade problems with Canada. We spent a day in Canada. Actually it was two nights and one day and we worked the whole time we were there. We next went to Japan where we spent 4½ days. We talked to the business leaders there, we looked at factories, we talked to local government leaders, we talked to National Government leaders, we talked to the Prime Minister, we talked to the American business community there. We had four busy days there. We did approximately the same thing in China, all at Beijing. We're going back to China before we leave the Pacific Basin. We next went to Nepal, a new area for most of us, but an area that we have some hope for. We spent a very brief time there, really not much more than a long refueling stop. We went to Calcutta, New Dehli, Aggara, to Bombay and India, and that may explain why we got the stomachs we have, but those are a lot of difficult stops.

We saw practically everyone we wanted to see in India but the Prime Minister, unfortunately, had some very pressing problems in the Assan area that he had to solve and he solved them during our visit, we take credit for it, but we saw everyone else in India that we needed to talk to and then we came here. We'll next go to Hong Kong. We have learned a lot and every place we go, if you follow us, we have met with the press and told them the same thing that we're telling you here, that we want to earn our way in the Pacific. While textiles are a big issue, and while our trade balance is a big issue there is something that is far more important than that. When you look at the Earth as a whole, and realize that half of its people are ill fed, half of its people are ill clothed, and half of them are ill housed or even more than that and many of them need medical care, it sometimes seems that we're not looking and we're arguing what we do with our surpluses. Our real challenge is to develop other markets. That's what we're thinking about. I believe in free trade because I believe it raises the standard of living of all those people who vigorously participated in a free and fair way. If we can raise the standard of living of other people, we have no problem in disposing of our surpluses. These surpluses will evaporate and become shortages if we could just find some way that those many, many people around the world could get the clothing that they need, could get the food that they need, could get the housing that they need, but it's going to require the best thoughts of mankind. It's going to require patience, it's going to require diligence, it's going to require wisdom, and it's going to require courage. And that's the theme of our trip. That's the idea we want to put forward. We want to develop the Pacific and all the people that tough it and all the world.

QUESTION. I would like to ask Mr. Anthony the question of what other congressional actions are being prepared or taken to say further force the opening of the Japanese market. I think here in Thailand, the Thai public and private sector have done a lot to do that. The other question is, For the last say 15–16 years, except last year, the trade between Thailand and United States has been in America's favor all over, except last year, and if we take into account the next five years of the heavy military spending for the security of Thailand, in acquiring say, to spend—just one bill alone is about 320 million dollars on the F-16S. Do you expect, or the sponsors of the Jenkins bill expect, any reciprocal action to be taken from Thailand? Thank you.

ANTHONY. There's a piece of legislation pending that's referred on our side of the aisle as the Rostenkowski bill. It's much, much meaner in application than the Jenkins bill. It says basically to four countries—if within a year you do not reduce your imports into the United States by a total of 5 percent, then there will be a 25 percent surcharge added to any imports from your country. The Japanese would be affected tremendously by that piece of legislation. That piece of legislation also has a Senator on the Finance Committee from Texas, Benson, that introduced it and sponsored it on the Senate side. It has Jim Wright, the majority leader and Dick Gephardt, the chairman of the Democratic Caucus, as co-sponsors. The chairman of our committee is a principal sponsor. That piece of legislation very likely could move before the Jenkins bill, we don't know.

All of these things are for the future to foresee. The expenditures on defense, and the fact that we've had a positive balance of trade in the past with Thailand, and the fact that the trend may not show a differential, are significant enough to have them included in the Jenkins bill. I think, says that maybe we should sit down and take all of these things into consideration. I personally do not have that many textiles in my particular State. I only had three plants. One of them now has closed down. But Mr. Jenkins, that's his number one employment. North Carolina, South

Carolina, it's their number one employment. We have had thousands of jobs lost and hundreds of plants closed. So it's more of a political reaction and a political reality that means there are so many co-sponsors to that piece of legislation. Each country, on its own merits I think could justify some separate and distinct treatment, unfortunately when you put together a piece of political legislation it's not all rational and, unfortunately, I think that's what we are seeing in this particular case. But these points have been made by your Government representatives very forcefully, very articulately, and I don't think they've fallen on deaf ears. We've been enlightened by these arguments. We'll take these arguments back to Washington and we'll mull them over, we'll massage them around and we'll see what will be the final outcome.

QUESTION. To further follow up with my question—do you expect any remedy measures to help Thailand in particular, in light of say the trade balance between two countries and also, the heavy military spending, as well as the Thai's public sector's action, which may force the Thai Government to take some reciprocal actions against the American people. For example, the trade embargo or that kind of thing.

ANTHONY. Well, for the first time in, I believe, four years we finally passed a foreign aid bill. There are some foreign military sales provisions contained in that piece of legislation. Some members of the panel may be much more familiar with the details of it than I am, but it would be my understanding that there may be some possibility there.

PEASE. Each year when the administration submits its request to the Congress for foreign assistance, it takes into account a lot of factors. Certainly since Thailand has been referred to today as a front line state, that factor would be taken into consideration, surely when Thailand is buying F-16s the Pentagon will take that into account and the President might well next year or the year after ask for more military assistance funds for Thailand in recognition of any problems caused by trade.

Just to follow up briefly a couple of points. Mr. Anthony, when you talked about a compromise could be made, if an offer was made, I got the impression that you through that Thailand didn't have any special case to make as a front line state—that the points that Thai officials would have made quite firmly—that the country bears an extra burden, a burden that Mr. Gibbons referred to, in addition to his long standing friendship with the states, that it should not get any particular consideration on that point.

ANTHONY. Well, I did not mean to leave that impression. That point has been made very forcefully and it's a point that I accept. All things being equal, Thailand probably would never have been brought into the equation. But when you have a political body that's got 435 members and you're trying to figure out a way to put a piece or legislation together to get 218 votes, sometimes you get something that maybe to the outside world doesn't appear to have a lot of logic to it. We may be caught up in that type of circumstance when it comes to putting this piece of legislation together. This piece of legislation underwent 36 drafts before it was introduced. This final draft is the product of an awful lot of meetings and negotiations among a lot of different parties trying to put together the catalyst by which they thought a problem could be addressed. There's still plenty of legislative procedures left for that bill to be amended, modified, changed, killed or passed. So anything I've said, I certainly hope that I've not left a negative impression on the fact that we all appreciate the past history, the support, especially the military support, and the fact that it is a front line state. I accept that; I've got no quarrel with that.

GIBBONS. Let me say that the Thais with their reception here of us, their fair newspaper reporting and news media reporting have won our hearts and our commitment over and over again. We realize that we were coming to an area that felt very deeply about the Jenkins bill. We were greeted by a group of demonstrators here who acted in a very responsible and a very heart warming manner but who by their directness got their message across very clearly. I read a headline somewhere that we had avoided the press at the airport. I want to correct that. I didn't even know there was any press at the airport. If we avoided anybody, we didn't intend to. Every country we go to we hold press conferences. We'll talk till your legs fall off or your ears fall off or your fingers fall off. We do not avoid the press. We realize that you in the press and in the media are the communications device and that we ought to treat you with respect and dignity because that is the only way we have in communicating with so many, many people that go into making decisions. I want to say that all of our conversations with the Thai officials and the Thai labor union leaders and the Thai people we meet, the business people, the men on the street and everything else has been very cordial and very thorough and very businesslike. We

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are impressed with the Thai people. Unless there are other questions, I guess we better declare this adjourned. Yes sir, we'll be glad to answer the question.

QUESTION. How about a quick assessment on your meeting with Thai officials today on questions that you have raised like patents, intellectual property rights, wheat, tobacco. Do they appear to be seeking some compromise?

GIBBONS. Well no. As wise people they did not commit themselves to any particular course of action. They said that they would take it into consideration. As I said, we didn't come here to bargain. We're not the bargaining arm of the United States Government. We are the policy-setting arm. We do not have any constitutional authority to bargain or any legal authority to bargain. We come here, and we have to go back and make laws. I don't want to put any Thai official in the position of having said they made any commitment to do anything. We didn't seek a commitment. We came to talk over problems, to gain information. And that's what we've done. I must say that we were very impressed with, not only the high caliber of the Thai officials, but with their very sincerity as well as their cordiality. They were well informed and stated their positions very clearly, and gave us a lot of food for thought, and that's what we came to get, and we tried to explain our side to them. They were very thorough, very complete meetings.

QUESTION. I take it that most of you noble gentlemen are now fully impressed by the Thai officials and the Thai private sectors about the potential difficulties, especially for the Thai textile industry and those who are employed in this industry. Are any of you, especially those of you who have supported the Jenkins bill, Mr. Anthony in particular, are you leaving Thailand with a changed attitude? Thank you.

JENKINS. I think Mr. Anthony expressed himself, and I don't want to defend him here, but he's made himself clear on that. Beryl, do you want to say anything?

ANTHONY. I feel like I've answered that question about three times. If I had to vote on it today I'd still vote for the bill. Has my attitude been changed. Yes, my attitude has been changed. Any time you meet somebody face-to-face and you get to know them in a short period of time you develop friendships. The Thais develop very quick friendships. People in the South, we don't have to know somebody for years before we feel like we know them. I feel like I'll leave Bangkok with some cards in my pocket. I'll be communicating back and forth. I've asked some of them to give me a call. I've told them we'd go and have dinner in Washington, D.C. I feel like I'll go back a richer individual for having made the acquaintances. Will that soften and modify one's position? Up to the point that it won't get me defeated in 1986.

GIBBONS. Now that's an honest answer, I'll tell you. I want to say to all of you we appreciate your coming and thank you very much.

6. HONG KONG, AUGUST 24, 1985

The delegation led by House Ways and Means Committee Trade Subcommittee Chairman Sam Gibbons held a departure press conference at Kai Tak Airport at 8:10 a.m. Saturday, August 24, 1985. Congressman Gibbons was joined by Representatives J.J. Pickle, Donald J. Pease and Bill Frenzel, and by Assistant to the President Max Friedersdorf. American media represented at the conference included AP, UPI, Fairchild News Service and the Mutual Broadcasting System. A transcript of the Press Conference follows.

Chairman GIBBONS. Good morning ladies and gentlemen. My name is Sam Gibbons. I am privileged to be the chairman of this Trade Subcommittee of the Ways and Means Committee. On my right is Mr. J.J. Pickle, a Member of Congress from Texas, from Austin, Texas; Mr. Donald Pease, a Member of Congress from Lorraine, Ohio; Mr. Bill Frenzel, a Member of Congress from Minneapolis, Minnesota; and on my extreme left over here is Mr. Max Friedersdorf from the White House. He is a counselor to the President and he is chiefly responsible for the legislative program of the President.

We are here to answer your questions and to stay as long as you need to get your questions in. We want to be as responsive as we can. You can address the questions to either me or to any member of the panel up here. We want to say that we began planning for this mission six months ago and we planned in great detail where we wanted to go, who we wanted to talk to, what we wanted to examine, and what information we wanted to acquire. Back in the United States we met with representatives of all of the countries, that is, their Ambassadors and their other representatives from all the countries involved. We talked with them in great detail. We have briefing books and notes beyond belief, and we looked forward to this visit to this edge of the Pacific Rim with great anticipation.

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Believe it or not, we did not come to talk about textiles, but that has been the center of conversation in almost every stop that we have had out here. We came to talk about the future of the Pacific. We came to talk about the fact that the United States is a part of the Pacific rim; it is a part of the economy of this world and we believe that in the future, this part of the world is going to be its most expansive, its most productive and its coming part of the world. We base that on the fact that the human resources are here, the natural resources are here, the pragmatic forms of government that are being adopted in this area of the world lead us to believe that this is where the economic expansion, the uplift of the world's economy is going to come from. And it was with that desire to expand trade, to expand understanding, to expand our cooperative efforts that we left the United States and it is with that mission that we will return with our message for our own people.

As I said, wherever we went, the main topic of conversation was the Jenkins bill, the textile bill. Let me explain that there are some members of this delegation—although I do not believe there are any on this panel—who are co-sponsors of the Jenkins bill. The Jenkins bill is merely a manifestation of the frustration that is going on in the United States Government and of its people, caused by the fact that we have a high, very high, merchandise trade deficit. You are familiar with the statistics, but let me repeat them. Next year, or this year in which we are now working, we expect the merchandise trade deficit of about 150 billion U.S. dollars. Now every 25,000—excuse me, every billion dollars worth of trade deficit costs the United States in domestic employment about 25,000 workers. The textile industry is broadly scattered throughout the United States, particularly the garment end of it, and for that reason, and has suffered a great deal because of its, the impact of imported goods and so it is the first of the American industries to come to Congress asking for help and protection. As you know, there are a great many sponsors of this legislation in the House of Representatives. In fact, there are about 70 more sponsors of the legislation than are needed to pass the legislation. I talked to Senator Dole last night. He says there are 57 sponsors now in the Senate of this legislation, which is seven more than is required to pass the legislation. So unless some agreements are worked out somewhere along the line, or unless something happens, there is a very serious chance that this legislation could become law. I hope it won't. I have a basic, fundamental feeling based upon my legislative experience that it will not become law in the form that it is now drawn. But I have to tell you in all honesty that I don't know how that is going to happen. My experience I guess reflects my natural optimism as well as my legislative experience on these matters. We recognize that Hong Kong in particular is the free trade capital of the world. It has no restraints on the importation of goods or services. Anyone is free to come here and to work here and to sell their product here and anyone is able to export from here anything they want to. Of course, there are some restrictions, like alcohol and tobacco, but they are very minor and very small. So we salute Hong Kong for what it is. We know that the rest of the nations out here along with Hong Kong are rapidly developing; they are under a lot of pressure to perform. Governments are being formed and ideas are being born. And to us this is a very exciting and challenging and promising area of the world. We are a part of the Pacific Basin and we want to participate in it fully and fairly and openly with you. Questions to any of us now. It always takes a little time to get started. We are very patient. Mr. Ehrlich of Fairchild.

PAUL EHRLICH. Fairchild News Service. Perhaps you could indicate how your talks with Thailand and in Hong Kong and elsewhere will have an effect on the Jenkins bill when you go back. In other words, what kind of message you will bring to those that sponsor the bill.

Chairman GIBBONS. Well, we will be able to take them a firsthand message that reflects the sincere, earnest and deep desire that these people in the countries that you mentioned deserve further consideration should that bill become law. We will be able to give them not only the reasoning of the people and the leaders of those countries, but we will be able tell them by our personal eye and ear and sensory experiences how important this is to this area of the world. And I think that's important.

Mr. EHRLICH. Do you think that you can now go back maybe and work on a possible markup of the bill, adding amendments to it that haven't been included now?

Chairman GIBBONS. Let me say on the markup of the bill, which in legislative language in the United States is where we take the bill and sit down in a small committee and begin to make the amendments in it, is a process whose exact time I cannot fix. We are all members of the Ways and Means Committee and our first legislative challenge after we get back to the United States is to revise all of the income tax laws of the United States, the personal and business income tax laws.

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And some people think that is simple; a number of us think it is going to take far longer than we had planned. That may delay the markup of this legislation well into the fall or perhaps the wintertime, around before Christmas. But I expect it to be marked up and to be considered in the House in 1985.

Mr. EHRLICH. And what is your gut feeling about a Presidential veto of the bill in the form it's in now?

Chairman GIBBONS. In the form it's in now I hope the President will veto it. It's been my experience in the pact, though, that the President is always very cautious in the use of his power in order to preserve as much of it as possible. And he usually does not state until a bill reaches his desk for final consideration as to whether or not he will veto it. If he says he's going to veto it in advance, it gives everyone a chance to vote one way on passage and another way on veto override and that is sort of a—that's an invitation for a lot of things. The President for his own strategic reasons would be wise in my opinion to not state that he is going to veto it until he actually sees it.

Congressman FRENZEL. The veto weapon is most powerful when it is threatened, not when it is used. Wise use of the veto power is to suggest that the possibility is there and therefore it would be a good idea to regroup and to rethink whatever kind of textile policy the Congress wants to put into law. And it is our hope, those of us who are not supporters of the Jenkins bill, that the President and his administration will apply the leadership of using the implied threat of the veto to make some substantial changes in the Jenkins bill. As you know, we have an MFA extension negotiation beginning shortly, this fall, and we would hope that good progress there might also affect what our textile policy is going to be.

GARY ADERMAN, Mutual Broadcasting System. Mr. Friedersdorf, could you say what the White House stand is on the Jenkins bill and the other trade issues raised by the delegation in its trip?

Mr. FRIEDERSDORF. I'd say total opposition.

Mr. ADERMAN. For what reason?

Mr. FRIEDERSDORF. Well, I think the main reason would be the impact it would have on our allies and our friends throughout the world; and the long-term damaging effects on the protectionist momentum by the United States Congress could damage our relations throughout the world. The three members of the cabinet have already signed a letter—Secretary of Commerce, Secretary of State, Secretary of Treasury Baker--advising the Congress of their strong opposition of this bill and in written form, and I am certain that all three of those members of the Cabinet would recommend a veto by the President. And as the chairman said, the President always reserves the right to announce a veto until the legislation's on his desk. We have no idea in what form that legislation might come to the White House. Chairman Gibbons, as he said, has not even started markup on it and it has to go through a demanding process on the floor in both Houses, so it could be in quite different form. But as it stands now, freestanding, I think the administration is quite clearly in opposition to it.

JONATHAN LANDAY, UPI. You're expressing regret about a protectionist movement in the Congress, and yet the majority leader of the Senate has been touring some Asian countries and warning those countries that unless they revise their trade policies, that they do face retaliation within . . . 60 days, I think was the last figure he used. How would the White House feel about——

Mr. FRIEDERSDORF. I can't speak for the majority leader. I think what the majority leader is doing is reflecting, the same as the House Ways and Means Committee, Chairman Gibbon's committee, the sentiment in Congress. And it's very clearly protectionist. There is no question about that. When you have the numbers of sponsors on this bill, an overwhelming majority in both Houses and possibly enough to sustain a veto, that's a fact that the majority leader is stating. But that still doesn't mean that the administration supports that attitude.

Mr. LANDAY. Do you think it's dangerous for Mr. Dole to be going around making threats?

Chairman GIBBONS. May I interrupt there? I talked to Mr. Dole—and I am not here to defend him or explain what he is saying—I think Mr. Dole is doing exactly what Mr. Friedersdorf said, and that is, he is explaining the position. If there are any threats, they are very constructive suggestions to the country of Japan. You know, no matter where we go, we find the United States running a hugh trade deficit with every country on Earth and Japan running a hugh trade surplus with every country on Earth. When we look at the Japanese and ask them, you know, what's going on, they say "Oh, your dollar has appreciated so much against our currency that we cannot, we, you know, we are sorry, you must get your dollar under control." And then we say to the Japanese, "Well, look at your yen. It has appreciated

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against every currency on Earth except the dollar and you do not run a trade deficit with anybody on Earth. In fact, you run a trade surplus." We tell them also "You talk about open markets and your market is not open; it's not just not open to U.S. goods, it's not open to third world goods." The United States absorbs 58 percent of the processed goods of the developing nations on Earth. The Japanese absorb less than 8 percent of the processed goods of the developing nations. That's what Mr. Dole is trying to tell the Japanese: "Open your markets, not just to the United States, but to all the developing nations. Your onesidedness of your trade is making it very difficult to conduct a free-trade program for the rest of the world." Japan is not a developing nation, although it continues to act like one, both psychologically and financially; and it is the second richest country on Earth, and it is just not pulling its fair share of the burden of the world economic system. I think that is what Mr. Dole is trying to say. That is certainly what I am trying to say.

Congressman FRENZEL. I think Mr. Dole could probably say it better than Sam and I can say it, but the message also applies to others. It doesn't happen to apply to Hong Kong because of its outstanding trade policies; but it applies to Taiwan, it applies to Korea. We have been to India, where there have been some interesting efforts to begin to open up that economy, but essentially that's a closed economy. It applies to Thailand, where we have had some very strong tariff measures taken by their government which apply to a number of our products. The United States is trying to tell the world that we have accepted the world's goods forever, and in accepting so many of them, we have weakened our own economy to the point where we must demand some sort of reciprocal treatment. Fortunately, Hong Kong need make no adjustments because it's had an outstanding record.

Chairman GIBBONS. Let me put also my remarks about Japan in this context: I said—because I am sure that you can't keep track of all us—I have led the fight in the Congress along with other Members to stop the so-called domestic content legislation. There are few people in the Congress that have fought as hard to keep the American market open to Japanese goods as Sam Gibbons, and I have no apology for it. But I expect fair play and I expect reciprocity. We have talked this over with Mr. Nakasone; we have talked it over with members of the LDP; we have talked it over with Mr. Abe. And they all agree that something must be done. We do run into problems with the Japanese business community as represented by the Keidanren, and I think they are out of step with what is going on in the world.

RADIO TELEVISION HONG KONG REPORTER. (Inaudible) Hong Kong's a free trade capital (inaudible) imports of goods including U.S. products, so do you think Hong Kong should be given or should be treated as a special case in the Jenkins bill?

Chairman GIBBONS. Of course, I am not a sponsor of the Jenkins bill nor a supporter of the Jenkins bill; and I regret that Hong Kong is being treated as it is in the Jenkins bill. Of course, I would prefer not to play favorites in the Jenkins bill. I would prefer that the Jenkins bill not become law.

Congressman PICKLE. Well, let me add this.

Chairman GIBBONS. Mr. Pickle.

Congressman PICKLE. I'm not a co-sponsor of the Jenkins bill, but I am rather sympathetic to the legislation because I think we need to send a message to the world that we need more reciprocity. But in either event I think that Hong Kong would have to be given special consideration. Your markets are open, you have reciprocal trading practices, and I think any legislation, if it advances, should take that into consideration. So I think Hong Kong would have to be given some kind of special consideration.

Chairman GIBBONS. Although I would warn that while those of us here who would like to keep the market free and would like to reward those who keep their markets free, Hong Kong is such a large exporter of textiles to the United States, that if you wanted to protect the industry in the United States, you could not ignore Hong Kong in drawing a bill to restrict the import of textiles, so you have to understand that because of the size and importance of Hong Kong, it is going to be in the forefront of any bill that is passed. And that is why it is a good idea not to pass a bill.

Mr. ADERMAN. Gentlemen, in a nutshell, what would the Jenkins bill do, not only in Hong Kong but throughout Asia and throughout the world, perhaps?

Chairman GIBBONS. It would severely cut back the Asian textile exports, ranging anywhere from as little as 15 percent in Japan to as much as 80 percent in Indonesia. Let me read off the estimates as to what it—and these are administration estimates—Taiwan, 33 percent; Korea, 33 percent; Hong Kong, 14 percent; the PRC, almost 60 percent; Japan, 25 percent; Pakistan, 43 percent; Indonesia, 89 percent; India, 25 percent; the Philippines, 14 percent; Thailand, 70 percent; Brazil, 88 percent, and Singapore, 8 percent. These are unofficial administrative figures but these

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are the best estimates that we can make right now. Of course, Brazil is not an Asian nation, nor a Pacific nation, but that was just one of the figures that we had when we were putting this all together.

Mr. EHRLICH. Do you think that if the bill is passed, in even a modified form, there will be serious retaliation from countries such as China, or maybe the Asian countries grouping together, to put a boycott on American goods?

Chairman GIBBONS. The Chinese have told us in writing and in voice, in no uncertain terms, that if they could not sell textiles in our market, they could not buy our products. They did not elaborate as to how they would retaliate, but they said that it was just impossible and that they would retaliate.

Congressman FRENZEL. And they have a record of having retaliated in the past by stopping purchases of cotton and wheat when we have made some restrictions on them a few years ago.

JAYNE BERBLINGER, Hong Kong TVB. Is it true that the Jenkins bill is actually trying to get the trade increases back on target of 6 percent? Because so many countries, and even Hong Kong, have increased about 19 percent last year and since that was 13 percent of the trade deficit, what are they going to do about the trade increase . . .?

Chairman GIBBONS. The Jenkins bill, I think, is self-explanatory. Mr. Jenkins says it is just a reinforcement of existing agreement that was reached in the '70s and '80s. I think you must understand that the United States has always been the principal driving force that was brought about the multi-fiber arrangement. As you know, the multi-fiber arrangement is an exception to the General Agreement on Tariff and Trade rules that most of the rest of the world follows: So we have been the principal sponsers of the MFA. We have MFA agreements with 42 countries scattered around the Earth and we have some 600 items on textiles and garments covered by that quota arrangement. Mr. Jenkins thinks that the MFA should have worked one way but because of sloppy enforcement, as he calls it, it worked another way. We could argue until the end of the world and never settle that question, because it becomes a matter of intention. But in the American market, the textile industry has always enjoyed a very high protective tariff, and has enjoyed quantitative restraints since 1957. It was the first American industry of any sort to come to the Government and say we need help and protection from outside competition. And since 1957 the protection that it expects and has demanded has grown and grown and grown.

Mr. ADERMAN. Mr. Gibbons, you have a nine-member delegation; exactly how many countries have you been in and do you think the trip was fruitful?

Congressman FRENZEL. Canada, Japan, the PRC——

Chairman GIBBONS. The PRC twice——

Congressman FRENZEL. Nebal, India, Thailand, Hong Kong, the PRC and home.

Chairman GIBBONS. Yes, it has been very fruitful, as well as very tiring. As you know, we have just recently come from Guangdong yesterday by bus. We stopped along the way and looked at certain installations all along the road. I won't try to give you a travelogue of everthing we covered, but someone was saying yesterday that we have had over seventy formal meetings, ranging from heads of state to press conferences like this. We have met with trade ministers and with the business community, both American and foreign, in all of these areas; and we have kept extremely good notes of it and have tried to summarize after each stop so we can put all of our findings and recommendations into a report as soon as we are able to.

Mr. ADERMAN. How long have you been traveling for?

Chairman GIBBONS. This is our third week.

Mr. FRIEDERSDORF. It should also be pointed out, if I can interrupt, textiles is not the only protectionist issue in the United States right now. The committee has bills pending—have been introduced to Congress—on shoes, timber, automobiles, I think there's 150-some bills. And I think one of the most important stops we have made, at least from an administration standpoint, was that the chairman held hearings in Canada on importation of Canadian timber, which is a big issue throughout the United States, in the Congress, almost as big as textiles, because of the impact of the importation of Canadian timber. There was a lot of important work done in Vancouver on that issue. So I think that also, there's other commodities we have discussed besides textiles throughout the trip. But I think that from the standpoint of Hon Kong and some of these nations over here—obviously, textiles is the only one, but there's a number of other issues that are just as important a priority as textiles.

Mr. EHRLICH. To follow that point, is there a strong possibility that quotas will be imposed against Asian footwear?

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Mr. FRIEDERSDORF. That decision will be made by the President. The deadline is September 1st, which I believe is about next Sunday. When we left Washington, the White House had received a recommendation from the ITC and discussions were going on among the President's trade advisors and I expect that decision will be announced sometime this week.

Mr. EHRLICH. Is your trip going to bring back further recommendations to the President?

Mr. FRIEDERSDORF. I am going to see the President the first of the week and I will discuss, chiefly, with him, textiles. The shoe recommendation, I think all of the information has been gathered, and there was a presentation to be made to him in California since—he is now there the past two weeks so I think that decision is probably pretty well locked up. The hearings and the considerations and deliberations in the White House on that have been going on for months so I think there's probably not much I can add when I get back on that.

Mr. EHRLICH. Could you possibly provide some details now on what kind of specific recommendations you are going to give the President regarding textiles, maybe in regards to particular countries and policies as a result of your trip—what you heard in Thailand and what you are going to go back and give the President?

Mr. FRIEDERSDORF. I think I'd prefer to report to him first and the press later. But I would say in general, I am going to report to him as the chairman outlined. We received quite strong reactions in a number of countries and one of the things that impressed us all, and certainly that I am going to report, is the extent of interest over here that quite frankly in Washington we didn't appreciate the intensity of it in the number of countries that we visited, and the direct threat of retaliation.

SUSAN HO, Hong Kong TVB. Would these warnings of retaliation have any impact on the passing of the bill when Congress resumes?

Chairman GIBBONS. That's hard to say. Certainly they will be taken into consideration. Some members will react one way, some will react another, I don't know. I think—let me say that the threats of retaliation have been delivered not in a vindictive manner, but in a a very dignified, responsible, reasonable manner. I think all of us will always remember when we arrived in Thailand we were greeted by what you would consider in the United States to be a protest against our arrival and against the legislation. But it was so peaceful and it was so masterfully carried out with deep sincerity. The textile workers were there; we greeted each one of them individually; instead of them delivering threats, they delivered flowers; instead of them delivering harsh words they delivered nice smiles, but they were protesting in their own very effective way, I thought, their distaste for the legislation. Our conversations with the PRC have been carried on the same way. Our conversations with the people here in Hong Kong have been the same way. These are responsible people dealing responsibly and the threats are not hostile or violent or mean or anything like that. But they are real and they are believable.

Congressman FRENZEL. It is fair to say, however, if for the supporters of the Jenkins bill the threats are not important—whether they are friendly or unfriendly—since we have a regative balance of trade with every country in the world, practically, and since many of these countries buy only what they need from us—many countries are prohibited by the IMF from buying very much from us—then many of the suggestions of retaliation are probably not real.

Chairman GIBBONS. Mr. Pease of Ohio would like to make a comment.

Congressman PEASE. I'd just like to add one thought: There are 291 co-sponsors in the House and I think about 57 co-sponsors in the Senate. The chief sponsors in each case who have so much textile industry in their own districts probably will not be moved by implied threats of retaliation. However, there are other Members of Congress who are co-sponsors who probably have some textiles or apparel plants in their districts, but that may not be the predominant activity; there may be soy bean farmers or corn farmers or high tech manufacturers or nuclear power plant manufacturers. And one thing we are going to do is go back and tell Members like that, who may be sort of friendly sponsors of the Jenkins bill, that based on our findings in the last three weeks, their support for the Jenkins bill may have an adverse impact on other economic activities within their districts. I don't think that that's going to erode enough support to stop the bill from passing but it may well lead to some modifications of the bill.

Mr. LANDAY. The message you're bringing back is you'd better reconsider this legislation, but the message I am getting from you is that you don't think that your message is going to have too much of an impact in Congress.

Congressman PEASE. If the Jenkins bill had 200 cosponsors or 228 cosponsors, then I think our message could have a significant impact. 291 is roughly 72 votes more than necessary, 73 to pass it, so it seems doubtful to me—I wouldn't want to say

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now that it is likely that we'll be able to dissuade 73 Members from voting for a bill for which they are cosponsors. But in the legislative process, there are always amendments offered which temper legislation, and it may be that some of those 291 Members are committed to the bill but not committed to oppose some of the tempering amendments.

Mr. LANDAY. So that what you have coming up is a confrontation probably between Congress and the President?

Congressman PEASE. It would be the first this year.

Congressman FRENZEL. Or perhaps . . . (inaudible).

Chairman GIBBONS. That's not unusual in our system.

Mr. ADERMAN. Mr. Friedersdorf, what kind of retaliation could hurt; what would a consequence of protectionism be, a specific one?

Mr. FRIEDERSDORF. Well, I think that's difficult to say. I think the nations that would be hurt by this legislation would look over what they are buying from the United States and go right to those items and impose quotas or tariffs, the same as we are talking about in the case of our domestic legislation. It is hard to forsee the exact consequences but obviously, if they would do that, it's going to cost more jobs in the United States and increase consumer costs. Those are the two basic things we're concerned about. If we can't sell items that means people won't be at work in the United States producing them; if we can't import items in quantity at lower cost it's going to mean that the consumer is going to pay more, so we have two negatives there.

Mr. EHRLICH. Is it possible that one scenario is that instead of passage of the bill in its form it might reappear as a bargaining chip in the MEA negotiations, for the United States to put pressure on making non-MEA textiles and fabrics come under quota, such as linen and ramie out of Hong Kong and China?

Chairman GIBBONS. I have talked to Mr. Jenkins about that and he denies to me that he's seeking a bargaining chip. I think you have to understand that Mr. Jenkins is from an area that is wholly textile and garments, and there is very little other economic activity in his area other than textiles and garments. The whole area. And Unfortunately for Mr. Jenkins and for the people involved, they don't live in big cities like Hong Kong; they live in little isolated pockets in the mountainous area of North Georgia. And when I say isolated, I mean it would be very difficult for them to commute and find another job somewhere. So when the mill or plant in their area closes down, it is not just an economic hardship, it is an economic disaster for them. And many other—because of the nature of the textile business, particularly the textile business—it is that way throughout the United States. Most of the big producing mills where there are a lot of people employed are not in large towns. Now, the garment industry is spread throughout the United States, as you know, all the way from cities the size of New York down to some very small cities in the Carolinas and Georgia. But it is—there are 20,000 production units in textiles and garments in the United States. It's a hodge-podge of from 10 to 15 employees to almost 100,000 employees in some of the industries.

Mr. EHRLICH. Can we assume then that Washington's position will be to bring non-MFA textiles and fabrics under quota?

Chairman GIBBONS. No, I don't—we are not the negotiators, we only delegate power to the negotiators, and I would not like to get out and speculate about that.

Congressman PICKLE. Let me emphasize a point I don't think has been made strongly enough, and that is, the financial condition of the United States is such that we have got to take some action. We cannot continue to run 200-billion-dollar deficits, financial deficits, year after year after year. We cannot continue to have 150-billion-dollar trade deficits. The trade deficit is even more critical than the national deficit itself. Now, under those conditions, you, or any other nation, must recognize that we've got to take positive steps. The legislation that has been introduced is just a pronouncement of an intent. It is not protectionism, as we have been stressing today, so much as it is, I think, an appeal for fairness, for reciprocity, for openness. That's just one step we can take. That's what people have back in mind, that—we are not trying to start a trade war. I don't think that will happen. Surely that cannot be allowed. But we must ask for reciprocity and for openness. That's what I think I'd want Members to try to appeal to; that's what the Jenkins bill is, perhaps, underlying purpose is, and that's what the Rostenkowski-Bentsen bill is, is for openness, for competitiveness.

Mr. LANDAY. Most of your committee are pro or anti the Jenkins bill?

Chairman GIBBONS. I've never polled them; I don't know. I have found that it is very unproductive if I go around and buttonhole them like that. I prefer for them to express their own opinions in their own time and they all will, I'm sure.

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Mr. EHRLICH. Anybody on the committee that was pro-bill that has changed his mind as a result . . .?

Chairman GIBBONS. I don't know, I can't answer that question since I don't know the first one.

Ms. Ho. Congressman Pickle, you said that Hong Kong should be given consideration in the passing of these new trade laws; what type of measures do you think will be taken?

Congressman PICKLE. I am not a sponsor of the bill so I'm not trying to make suggestions. I think we ought to keep in mind that the Hong Kong market is open, it is competitive, and to that extent we have reciprocity; and I think that it one factor we have to take into consideration. I'm willing to do that.

Chairman GIBBONS. I think Mr. Pickle has hit upon a theme that should be stressed and that is reciprocity. We don't expect anyone to do anything for us that we don't do for them. All we ask is that their markets be as open as ours, and certainly we cannot challenge Hong Kong in that. They have the most open markets in the world; in fact, their markets are far more open than ours. As I say, when we stopped in Japan where we have a serious problem, we didn't ask for anything other than reciprocity, not just for the United States but for all the rest of the world, too. Thank you all very much. Very, very intelligent questions.

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APPENDIX E: LETTER TO PRIME MINISTER NAKASONE OF JAPAN, AUGUST 9, 1985, AND REPLY SEPTEMBER 12, 1985

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
HOUSE OF REPRESENTATIVES,
Washington, DC, August 9, 1985.

Hon. YASUHIRO NAKASONE,
Prime Minister,
Tokyo, Japan

DEAR MR. PRIME MINISTER: On behalf of the entire Congressional delegation, I want to thank you for devoting so much of your valuable time to our meeting to discuss the serious problem facing the United States and Japan in the area of trade.

I want first to reiterate what I said during our meeting. The United States' relationship with Japan is a special one. It is a relationship which should be further strengthened and deepened as a foundation of world prosperity and peace. As you said, when the pillars on each side of the Pacific shake, the entire world shakes as well. It is with that spirit that I approached the meeting with you, and it is that spirit which I carry in this letter. My deep concern is that unless the United States and Japan, working together, can overcome the serious hurdle confronting us in the short term, our ability to work toward more fundamental, long-term solutions to our problem may be frustrated.

The entire delegation came away from our meeting with you with a renewed sense of appreciation and respect for the seriousness with which you view the situation and for your tireless efforts in working for changes which would ease the friction in the trade area. We applaud your leadership.

However, as other members of the delegation and I indicated, we fear that many key leaders in business and in at least some of the ministries of Japan still are not convinced of the seriousness of the situation. As a result, they do not seem to recognize how essential it is for Japan to make some very rapid, drastic changes in its approach to the trade problem. You alone, despite your personal commitment to liberalization of Japan's markets, cannot bring about the necessary changes without support from other key segments of Japanese society. I should note here that on the basis of our meeting with Foreign Minister Abe, he seems to share your goal of increased market liberalization in Japan.

It is because of the very short time available to defuse the very strong protectionist sentiment of the U.S. Congress and business community that I appeal to you to move quickly to announce some measurable goals in reducing Japan's trade surplus not only with the United States, but with the rest of the world as well.

The Action Program if fully implemented, coupled with a firm program to stimulate domestic demand, are appropriate means for dealing with the trade problem in the longer term. I must note here that the United States shoulders an equal responsibility in changing some of the fundamental causes of the U.S. trade deficit—most notably, reduction of our massive fiscal deficit. But the U.S. Congress is now viewing the situation in the short term; and dramatic, immediate steps must be taken by Japan to deal with the short term problem.

It is with that background that I suggested to you that your government announce its intention of reducing its trade surplus by a substantial, measurable amount each year for the next five years. I suggested the goal of a $15 billion bilateral surplus in five years. Perhaps you would view that as unattainable in five years; but whatever the figure, it must aim at substantial reduction of Japan's surpluses with the United States and the rest of the world.

I am a free trader at heart. I would far prefer to see Japan take courageous steps to expand its own market for the consumption of imported and domestically produced goods, and to provide better housing and an improved standard of living for its citizens, than to have the United States close its markets to Japanese products.

The time is short, and while I recognize the strength of your efforts to date, I regret to say that additional, immediate steps will be necessary to help us overcome our short term problems.

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Please let me extend to you my deepest respect and my sincere hope for a successful resolution to our current difficulties.

Sincerely,

SAM M. GIBBONS, *Chairman.*

OFFICE OF THE PRIME MINISTER,
Tokyo, September 12, 1985.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade,
House of Representatives, Washington, DC.

DEAR CONGRESSMAN GIBBONS: I appreciate very much your letter dated August 9 and must thank you for it. Indeed, your recent visit to Japan together with other leading members of the United States House of Representatives was most informative as well as beneficial.

As is clearly stated in your letter, the close relationship between Japan and the United States is of utmost importance for the peace and prosperity of the world. Particularly in the area of world trade, our two countries share the responsibility to maintain and further promote the free trade system. There is no shadow of doubt that close cooperation is crucial in preventing protectionism from dominating the scene.

Listening to you and your fellow free traders further deepened my awareness of the frustration prevailing in the U.S. Congress on our bilateral trade relationship, and reinforced my conviction to continue my maximum effort toward the expeditious and vigorous implementation of the Action Program and its through follow up. In addition, the dialogue and consultations between our countries must also be energetically pursued and I am happy to inform you that the ongoing MOSS consultations made yet further progress in Hawaii the other day. I would further like to note that a special working group is conducting studies to expand domestic demand.

You made a suggestion at our meeting and again in your letter that Japan should announce its intention of reducing its trade surplus by a substantial and measurable amount each year for the next five years. Although your suggestion requires careful examination, I do share your deep concern in making such a suggestion.

I would like to close my letter by informing you that a high-powered delegation composed of a select few leading members of the Diet and led by Mr. Susumu Nikaido, Vice President of the Liberal Democractic Party, will be visiting Capitol Hill towards the beginning of next month. My determination to work even harder for the betterment of Japan-U.S. relationship is as firm as ever. Yet, to do this your cooperation and understanding is indispensable, and I therefore hope with all sincerity that you and your distinguished colleagues will hold fruitful discussions with the Nikaido team.

Sincerely yours,

YASUHIRO NAKASONE,
Prime Minister of Japan.

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APPENDIX F: LETTER TO MR. NORISHIGE HASEGAWA, VICE CHAIRMAN, KEIDANREN, AUGUST 9, 1985

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
HOUSE OF REPRESENTATIVES,
Washington, DC, August 9, 1985.

Mr. NORISHIGE HASEGAWA,
Vice Chairman, Keidanren, 9-4, Ohtemachi 1-chome, Chiyoda-ku, Tokyo 100, Japan.

DEAR MR. HASEGAWA: On behalf of the entire Congressional delegation, I want to thank you for arranging a meeting between important members of Keidanren and the Trade Subcommittee during our visit to Tokyo.

To be perfectly candid, however, I must say that our delegation left that meeting with a feeling of dissatisfaction and deep regret, and perhaps a bit of sorrow. Dissatisfaction and regret, because many of us on the delegation had hoped that the meeting could have been used to construct a mutually beneficial approach to the extremely serious problem confronting us in the trade area. Sorrow, because it seems apparent that despite the efforts of many in the United States—most recently ourselves—to convey to the members of the Japanese business community the crisis nature of the problem confronting us, that message seems to have been lost on at least some in Keidanren.

The fundamental causes of the trade problem are well known—among them, the U.S. fiscal deficit and overvalued dollar, and Japan's high savings rate and excessive reliance on export-led growth. Recent passage by the U.S. Congress of a $56 billion cut in the federal budget deficit is a step in the right direction. Clearly, much more remains to be done by the United States in that area and in other areas to improve U.S. competitiveness in international markets.

Equally clearly, much remains for Japan to do in order to begin substantially reducing its enormous trade surpluses with the United States and the rest of the world. Even a resource-poor country such as Japan does not require trade surpluses in the $50 billion range in order to sustain itself in this highly interdependent world. Japan's trade surpluses have mounted not just against the United States but against virtually every nation which is not a major provider of raw materials—including heavily indebted countries of Latin America, Asia, and elsewhere. These surpluses have mounted despite the very substantial appreciation of the yen against all major currencies except the dollar. The surpluses are causing political pressures in the United States and elsewhere which threaten to undermine the soundness of the free trade system itself.

My point here is not to debate the arguments on the source of the trade frictions between the United States and Japan. My point is to say that the time finally has come for Japan to drastically alter its past methods of responding to U.S. entreaties to truly open its markets to foreign participation and to move sharply away from excessive reliance on export-led growth. Plans which merely offer the promise of future action no longer are acceptable. I regret to say that Japan's promises in the trade area no longer have any credibility in the U.S. business community or in the U.S. Congress.

Our apparent failure to convey this message to members of your organization is a great source of concern to me. It appears that Prime Minister Nakasone and some key members of his Cabinet recognize the severe crisis we now face and are personally committed to taking the courageous steps necessary to deal with it. However, the Prime Minister cannot be successful without the full support of the Japanese business community. On the basis of our meeting at Keidanren, it does not appear he has that support.

In light of the seriousness of the protectionist threat in the U.S. Congress and the political unacceptability of Japan's large and persistent trade surpluses, we suggested to the Prime Minister that Japan should announce a plan immediately which would aim at reducing Japan's trade surplus with the United States to $15 billion within five years. That figure may sound shocking to you. But we are now at that point. I have been a free trader all my life; I remain so today. But I have few sup-

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porters of that position remaining in the U.S. business community or the U.S. Congress.

My message to you and other members of Keidanren is to act now as if a crisis is upon us; because it is. I urge you as strongly and as earnestly as I possibly can to take this opportunity to work with Prime Minister Nakasone and other members of his government to craft an immediate, bold, and meaningful plan to reverse the direction of Japan's trade surpluses.

Sincerely,

SAM M. GIBBONS, *Chairman.*

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APPENDIX G: LETTER TO THE HON. RAJIV GANDHI, PRIME MINISTER OF INDIA, AUGUST 17, 1985, AND REPLY, SEPTEMBER 27, 1985.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
August 17, 1985.

Hon. RAJIV GANDHI,
The Prime Minister,
Rajbahvan, New Delhi, India.

DEAR MR. PRIME MINISTER: As members of the Congressional delegation from the Committee on Ways and Means of the U.S. House of Representatives, we want to express our appreciation for the warm welcome we recived from your government and the people of India. Our discussions with your ministers were frank and substantive, and we were impressed with the strength of commitment to reviving a more open economy for India evident in every conversation. We regret that we could not meet with you personally when we visited New Delhi, but we understand the heavy demand of your schedule at this particular time?

One matter we would have discussed with you, had we been able to meet, is the completion of the Memorandum of Understanding was tentatively agreed to by yourself and President Reagan during your recent visit to Washington, D.C. a new request from the Indian government with respect to the language on the control of nuclear technolgy has held up implementation of the Understanding. It is our understanding that, upon full implementiaton of the Understanding, a larger number of orders for computer and other high technology equipment will be promptly licensed by the U.S. Government for shipment to India.

Sucessful conclusion of this Memorandum of Understanding is terribly important, we believe, because it signals the new focus of the Indian economy on greater private sector market opportunities that will lead to an expanded trade relationship between our two countries. Everything we have heard in India from business people, political figures, and govenment representatives demonstrates the widespread enthusiasm about your plans to open the economy and make it more productive and competitive. The ability to quickly and smoothly complete sales of high technology goods to India will form the basis of an expanded partnership in India's future development. We expect to carry that message of enthusiam and confidence home to our Congressioanl colleageus and to U.S. business.

We respectfully request that you give this matter your personal attention so that the review of the language on nuclear transfers can be completed as quickly as possible and the Memorandum of Understanding can be implemented in the very near future. Your leadership in bringing this agreement to a successful conclusion will be greatly appreciated. It will mean a great deal to U.S. firms seeking to more fully participate in India's new economic expansion.

We would like to close by telling you how impressed and inspired we were by your address to the Joint Session of the U.S. Congress last month. The excitment of your message that India intends to create new opportunities for itself and the world is one that we want very much to support. Again, thank you for your consideration of our concerns and for the attention given by your government to matters of mutual interest to our two countries.

Sincerely,

SAM M. GIBBONS,
Chairman, Subcommittee on Trade.

BILL FRENZEL,
RICHARD T. SCHULZE,
CARROLL A. CAMPBELL,
WILLIAM M. THOMAS,
J.J. PICKLE,
JAMES R. JONES,
DONALD J. PEASE,
BERYL ANTHONY,
Members of Congress.

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PRIME MINISTER,
New Delhi, September 27, 1985.

Mr. SAM M. GIBBONS
Chairman, Subcommittee on Trade,
House of Representatives, Washington, DC.

DEAR CONGRESSMAN GIBBONS: I have just received your letter of August 17 through the US Embassy in New Delhi.

I regret that my schedule did not permit me to meet your delegation when you were here. I am glad that you had subetantive discussions with our ministers and officials.

I agree that the Memorandum of Understanding on technology transfer signed by our two Governments is a positive step. I trust that it will facilitate and enlarge the cooperation between our countries in this important sector. We must now build on it for our mutual benefit.

I send my good wishes to you and to all the members of your team.

Yours sincerely,

RAJIV GANDHI.

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APPENDIX H: LETTER TO PREMIER WILLIAM BENNETT OF BRITISH COLUMBIA, CANADA, AND TO TRADE MINISTER JAMES KELLEHER, AUGUST 5, 1985

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
HOUSE OF REPRESENTATIVES,
Washington, DC, August 5, 1985.

Hon. WILLIAM R. BENNETT,
Premier, British Columbia,
Victoria, BC, Canada.

DEAR MR. PREMIER: On behalf of all of the members of the U.S. delegation, I want to express my deep gratitude to you for inviting us to the great City of Vancouver to discuss an issue of great importance to all of us. We found the breakfast meeting which you hosted to be an extremely useful forum for a frank exchange of views on a very difficult subject.

Although these discussions did not result, nor were they intended to result, in a resolution of our differences, they did go a long way toward improving our mutual understanding of the problems on both sides of the border. I can assure you that neither I, nor the other members of this delegation, are attempting to, as you put it, "level the Canadian players." We are simply trying to provide a fair and equitable mechanism to protect U.S. industry from the injurious effects of subsidized imports. If Canadian softwood lumber is not being subsidized, you should have nothing to fear from legislation directed at subsidies.

As I said at the meeting, this bill is not directed at Canada or Canadian practices and if you think the bill as currently drafted is unfair, I welcome your suggestions for changes in the bill which you believe could accomplish this objective in a more equitable manner. I look forward to working with you and your colleagues in the Federal Government in the coming months on this issue.

Martha and I also want to thank you for hosting the boat excursion in the beautiful Vancouver harbor. All of the members of the delegation thoroughly enjoyed not only the beautiful sights but also the warmth and friendship of our hosts.

Sincerely,

SAM M. GIBBONS, *Chairman.*

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
HOUSE OF REPRESENTATIVES,
Washington, DC, August 5, 1985.

Hon. JAMES F. KELLEHER,
Minister for International Trade, Lester B. Pearson Building, Ottawa, Canada.

DEAR MINISTER KELLEHER: I am writing on behalf of the members of the U.S. delegation to express my deep appreciation to you and your staff for all of the hard work that went into making our visit to Vancouver so rewarding. The briefing you hosted provided an excellent opportunity for each of us to learn more about the economic and political problems that confront us on both sides of the border. We also greatly appreciated your warm hospitality in hosting a Members' luncheon and in making arrangements for transportation and other services for the delegation during our visit.

It was clear from the excellent discussions that we had that there are no easy answer to the problems we are facing on the issue of subsidies in the softwood lumber industry. However, as you so ably pointed out in the press conference, the fact that we are talking and that we both recognize the importance of our bilateral relationship is a positive first step toward resolving the problem.

My bill seeks to establish a fair and reasonable mechanism to protect U.S. industries from being injured by subsidized imports. It is not directed at Canada or any other specific country, and if Canada is not subsidizing its lumber industry, it

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should not result in the imposition of countervailing duties. I welcome your constructive suggestions to modify the language in the bill if you believe that the bill, as drafted, would be unfair to Canada in its application.

Sincerely,

SAM M. GIBBONS, *Chairman.*

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APPENDIX I: LETTER TO VICE PREMIER TIAN JIYUN OF CHINA, SEPTEMBER 5, 1985

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
HOUSE OF REPRESENTATIVES,
Washington, DC, September 5, 1985.

His Excellency Mr. TIAN JIYUN,
Vice Premier of The State Council,
People's Republic of China.

DEAR MR. VICE PREMIER: On behalf of the entire Congressional delegation of members of the Committee on Ways and Means of the U.S. House of Representatives, I want to thank you for the warm welcome we received from your government and the people of China. Our visits to Beijing and to Guangdong province last month were most enjoyable, and contributed greatly to the continuing dialogue between our two countries.

U.S.-China relations have strengthened in many ways since the normalization of our relations. Two-way trade increased to $6.1 billion last year, and is expected to reach $7 billion this year. U.S. investment in China now exceeds $700 million. Just prior to our delegation's visit to China, our two governments signed a bilateral nuclear cooperation agreement, which promises to open up new opportunities for commercial relations between out nations. This agreements accords which have been concluded since normalization of relations.

In addition to the increased commercial exchanges between China and the United States, of perhaps even greater significance have been the increased cultural and educational exchanges which have developed over the past few years. Over 15,000 Chinese students are now studying in American colleges and universities, and approximately 1,200 Americans are studying or teaching in China. In addition, more than 200,000 U.S. tourists travel to China each year. The new bonds of friendship and understanding which are being forged through cultural and educational exchanges will form a more lasting and valuable basis for future bilateral relations than can be measured in mere numbers.

At the heart of the strengthened ties between our two nations has been the commitment of your government to economic reform and to the policy of opening China to foreign trade and investment. As you know, many members of our delegation visited China in 1981, and upon our return this August, we found a country whose rapid and healthy development was evident at every turn. The progress which China has achieved in such a short period of time has been astounding. We applaud your efforts and your achievements.

We also understand and appreciate your concern over certain "growing pains" which have accompanied your rapid development. We urge you, however, not to let these short-term difficulties discourage you from a continued commitment to an "open door" policy.

Our visit to Guangdong province was the first for members of our delegation, and proved to be a highlight of our entire Asian tour. The city of Guangzhou is indeed an important gateway for trade with China, and the commercial vitality of this coastal city was reflected in the enthusiasm and vigor of the people there. The industrial development that has occurred in Shenzhen and the Shekou Industrial Zone is truly impressive, and we hope that the changes that are occurring in this special economic zone will be considered a success and a model for future economic development.

I want to thank you for the personal attention which you gave us in meeting with our delegation in Beijing on a Saturday afternoon. All of our discussions in China were frank and constructive, but our meeting with you, more than any other, left us with a deep sense of confidence and optimism that the long-term relationship between our two nations has a bright and promising future.

Although short-term obstacles are inevitable in any relationship, I agree wholeheartedly with your position that U.S.-China relations must be viewed with a long-range perspective. Actions by both sides must be in furtherance of mutual long-term

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benefit. Our meeting with you reinforced my belief that immediate problems, such as the textile trade issue, may be overcome if both sides work with as much diligence, sincerity, and understanding as was evident on the part of all of the Chinese officials with whom we met. Our discussions gave both sides a clearer understanding of some of the political and economic problems involved in the textile issue, and hopefully will contribute to a reasonable resolution of this short-term obstacle to our relations.

Thanks again for the opportunity to meet with you and other leaders of your government in our continuing effort to strengthen the ties between our two countries.

Sincerely,

SAM M. GIBBONS, *Chairman.*

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APPENDIX J: LETTER TO SPEAKER THOMAS P. O'NEILL, JR., FROM MESSRS. GIBBONS, PEASE, AND FRENZEL, AUGUST 24, 1985

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, August 24, 1985.

Hon. THOMAS P. O'NEILL, Jr.,
The Speaker, House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: During the past three weeks, we have participated in a Congressional fact-finding mission through Asia to discuss trade and economic relations with several of our key trading partners. As we return to the United States, we want to bring to your attention a potential crisis which we believe is developing in our diplomatic and trade relations with these nations over legislation now pending in Congress, commonly referred to as the Jenkins bill.

In Japan, China, India, Thailand, and Hong Kong, we held constructive and frank meetings with the heads of government or their key trade officials. In these meetings, and during a separate working session with representatives of ASEAN nations, the delegation was warned repeatedly that the textile bill is discriminatory, blatantly violates international law and existing trade agreements, and certainly will result in retaliation against the United States. They further protested that the legislation is unfairly aimed at Asian producers only and is, in their eyes, a "white man's" bill because Canada and Europe are exempted from its provisions.

In China and Thailand, where textile exports to the United States would be cut back anywhere from 50 to 70 percent under the bill, the intensity of feeling is particularly strong. China's Vice-Premier Tian Jiyun, for example, unequivocally stated his country's intention to retaliate in some form should the bill become law. Your own State of Massachusetts could well suffer, for China has plans to purchase enormous amounts of high technology equipment over the next several years. We emphasize that this issue threatens to set back the progress we have made since the normalization of our bilateral relations with the People's Republic.

In Bangkok, where textile exports represent a substantial portion of their export earnings, Prime Minister Prem specifically raised the issue, emphasizing the severe impact that the bill would have on the Thai economy. Other Thai officials claimed the United States was abandoning an old friend and ally at a time when Thailand has become a front-line state against aggression in Southeast Asia.

Hong Kong officials see the bill as grossly unfair to their colony inasmuch as, unlike Japan, Hong Kong has absolutely no restrictions against U.S. products entering their markets.

We believe our meetings were useful in presenting the current mood of the Congress to the Asian leaders and resulted in a clearer understanding by both sides of the political and economic problems in textile and apparel trade today. Nevertheless, these nations made it clear that they would not stand idly by should this legislation move forward. Retaliation, already promised by China, will certainly occur.

Beyond the immediate and severe economic impact is a much broader psychological effect. Countries which stand, and have consistently stood, with us in war and peace for freedom and open markets would feel betrayed. We would be breaking a political contract with these valued allies.

Our Asian friends in Japan, China, India, Thailand, plus the five other ASEAN nations and Hong Kong all believe that this bill is discriminatory and aimed directly at them. It is worthwhile noting that these countries comprise more than half of the people on earth, and are vital to our peace and security.

Mr. Speaker, we realize full well the internal political pressure with which you must cope when 291 Members of the House cosponsor a piece of legislation. You can hardly fail to recognize the entreaties of our esteemed colleague Ed Jenkins and other Members whose support of the bill is strong and whose districts are experiencing serious textile-related unemployment. But we felt you should be made aware that much more is at stake than helping our colleagues to help their textile indus-

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try constituents. Grave international consequences are possible, indeed almost assured.

The members of the Subcommittee on Trade, and others who participated in this mission, stand ready to meet with you on this serious matter.

Sincerely,

SAM M. GIBBONS,
Chairman.

BILL FRENZEL,
DONALD J. PEASE,
Members of Congress.

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APPENDIX K: SUBMISSION BY THE CANADIAN FOREST INDUSTRIES COUNCIL

CANADIAN LUMBER: THE MYTHS, THE FACTS

There are a number of misperceptions about Canadian lumber which seem to be circulating with growing intensity. Four myths currently dominate the debate:

Myth No. 1: Stumpage is subsidized in Canada.

Myth No. 2: Canadian market share in the U.S. has increased dramatically in recent years.

Myth No. 3: Canadian forest industries are growing while U.S. forest industries are shrinking.

Myth No. 4: Canadians are not practicing responsible forest management.

Canadian lumber is in the U.S. market for one good reason: it's needed.

As attachment #1 shows, for very many years, Canada has helped the United States meet its lumber needs. Canadian lumber has filled the gap between U.S. consumption and domestic production.

The lumber market is a fluctuating market; historically, demand goes up and down according to prevailing economic conditions. It is cyclical and for Canadians that has meant two things.

First, when markets are good, Canada has been encouraged to increase production to help meet U.S. demand for wood products.

Second, when markets are poor, Canadians can predict attempts will occur to fence them out of the market.

The recent recession had a devastating effect on home construction. At the height of that recession, a group of U.S. producers launched a countervailing duty petition against Canadian lumber.

Filed with U.S. trade authorities in 1982, the petition charged that Canadian lumber producers receive unfair benefits from government. The main allegation was that Canadian policies for setting the value of timber were a form of subsidy. The U.S. petitioners wanted to decide the subsidy question simply by comparing U.S. and Canadian stumpage rates.

In brief, in May 1983 the Commerce Department responded to the complaint by ruling that timber pricing policies in Canada do not provide a subsidy. The wording of their final determination was as follows:

> We believe that a comparison of Canadian stumpage prices with U.S. prices would be arbitrary and capricious in view of: (1) the wide differences between species composition, size, quality, and density of timber, terrain and accessibility of the standing timber throughout the United States and Canada; (2) the additional payments which are required in many provinces in Canada, but not generally in the United States; (3) the fact that, in recent years, prices in national forests in the United States have been bid anywhere between two to five years in advance of cut, without taking into account the fluctuations in demand for lumber; and (4), the fact that in recent years the U.S. Forest Service has restricted the supply of timber in certain national forests due to budgetary and environmental constraints.
>
> Alternatively, even if one believes that there is a rational basis for comparing U.S. and Canadian stumpage prices, the record of these investigations includes studies showing that once appropriate adjustments are made to take into account the differences in quality, accessibility, as well as additional payments for in-kind services, Canadian prices for standing timber do not vary significantly from U.S. prices indeed, in some cases the Canadian prices may be higher.

Canadians obviously hoped that the Commerce Department decision would close the book on the issue. If previous patterns held, the recovery should have reduced tensions by improving markets.

Unfortunately, history has only repeated itself in half-measure. Demand did recover. Prices did not. And the issue has persisted, leading to a considerable number

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of legislative proposals being introduced in the U.S. House and Senate to curb American imports of Canadian wood products. Some bills call for quotas or tariffs. Others advocate changes to U.S. countervailing duty law.

Those seeking restrictions on Canadian lumber do not couch their arguments in supply terms, and tend not to mention the impact restrictions would have on domestic costs. Instead, they hang their hat on the charge that Canadian stumpage is subsidized.

It just isn't so.

The first step in discussing this myth is clarifying the term "stumpage". Stumpage means the price which is paid for standing timber.

Frequently quoted comparisons between Canadian and American stumpage rates usually overlook the fact that although similar in some respects, stumpage systems across Canada and the U.S. differ in the kinds of costs they impose on producers and in their practical application.

What the value of timber really boils down to, however, is how much a given lumber manufacturer can afford to pay for it.

Attachment No. 2 contains a list of the various factors that can affect the value of timber, or how much a manufacturer is willing to pay for it. They include:

Species, age, size and quality of the timber; degree of remoteness—or the distance to mills and markets; access to roads and other infrastructure; costs imposed on companies to harvest timber; other costs of production; climate; and topography.

These factors vary widely throughout North America. Forests on this continent extend from Florida to the Arctic Circle. The diversity of climate and geography they encompass is hard to describe.

Pictures help demonstrate this diversity. Attachment No. 3 is a plantation forest in Alabama: regular rows of planted trees of uniform age, on relatively flat terrain and in many instances, not that far from an established road or highway.

By way of contrast, Attachment No. 4 is an aerial shot of a forest in a remote section of northern Canada. This is an old growth forest developed by natural forces only: mixed species, often on mountainous terrain, and miles from the nearest town.

Generally speaking, Canadian forests are older, grow more slowly, and involve tougher logging conditions. The systems we have adopted are the ones which have best suited the opening up of our country and its resources—which are vital sources of revenue for our provinces.

In many parts of Canada, harvesting takes place during a frigid winter, and new roads are often necessary to gain access to remote stands of timber. In many respects, Canadian producers are still pioneers.

This underlines the fact that different trees have different values. One certainly would not expect to pay the same amount for a tree located near the Arctic Circle as one would for a tree from a southern plantation.

Given the variables involved, it would be surprising if stumpage rates were the same in any two regions in North America. And they're not—not even across the United States, let alone the States versus Canada.

For example, Attachment No. 5 shows the average stumpage prices paid by U.S. companies to the U.S. Forest Service for publicly-owned timber in 1984, in various regions. The rates ranged from about $14 per thousand board feet in the Rocky Mountains to $27 per thousand in the East, to $81 per thousand in the South and just over $100 per thousand in the Pacific Northwest.

The wide variation in U.S. stumpage prices demonstrates the pitfalls of attempting to draw meaningful conclusions from stumpage comparisons. As attachment No. 6 shows:

1. Lower stumpage rates do not imply subsidized prices.
2. Timber values vary even between regions of the U.S., according to species mix, quality, geography, logging and transportation and production costs.
3. Comparing stumpage prices reveals little about the relative competitiveness of wood products industries.

Those who complain about Canadian lumber like to simply compare stumpage rates in two cross-border regions. And they're quick to point to lower Canadian stumpage rates as evidence of subsidy.

But it's not a legitimate comparison because it ignores all the other factors that affect the value of a tree. The real question is what happens to this picture when all the costs and charges involved in harvesting the timber, processing it and transporting it to market are taken into account.

Attachment No. 7 shows how the picture changes when the tree cut and delivered to the sawmill.

The graph in Attachment No. 7 is a comparison of delivered log costs in adjacent areas of Canada and the U.S. The illusion of lower costs evaporates quickly when viewed in this broader context.

As the graph shows, delivered log costs are comparable for roughly equivalent stands of timber on both sides of the Canada-U.S. border.

The more complex comparison of costs to the mill gate tells a more complete story than do simple stumpage comparisons. The fact is there are major cost differences between the two countries.

Because of this, Canadian and American forest resources and stumpage prices cannot be compared as if they were the same. They are not.

A second popular myth about Canadian lumber is that it has been flooding the market.

But the reality is that Canadian market share has shown only a modest increase, as the actual numbers demonstrate.

In 1978, long before the current debate began, Canadian lumber was meeting the needs of about 28 percent of the U.S. market. Canadian market share grew to just under 31 percent in 1984.

As noted at the outset, though occasionally stormy, relations between Canadian and American lumber suppliers have always been rooted in the simple reality that Canadian lumber is needed to help meet a U.S. demand for softwood lumber that exceeds domestic supply.

As a result, the North American lumber market is essentially a common market, an interdependent network of thousands of buyers, sellers, producers and distributors conducting sales daily.

Interactions and competition between Canadian and American suppliers and between lumber producing and consuming regions in North America are complex. Many factors determine which product a customer will buy. For some end uses of softwood lumber, there is little competition between Canadian and American suppliers due to the unique characteristics of the different species grown in each country.

The major sector where our products compete is, of course, the large market for construction lumber. And that market is affected by several factors. Attachment No. 8 lists the most prominent ones at the moment: the high value of the U.S. dollar; recent productivity improvements in both industries but particularly in Canada; and customer preference.

The strength of the U.S. dollar is a very important factor influencing Canadian lumber in the U.S. market today. The U.S. dollar was at par less than 10 years ago; it is currently worth about $1.35 Canadian. Because Canadian companies incur costs in Canadian dollars but can sell their products in American dollars, the exchange rate provides a major benefit.

Attachment No. 9 shows how the steady appreciation of the U.S. dollar in recent years parallels the rise in the share of the market served by Canadian producers.

It indicates that the debate over Canadian lumber fits into a much bigger picture: the internal American debate over the costs and benefits of a highly valued dollar and its impact on the U.S. economy and on trade.

The second major factor affecting competition in the lumber market has been productivity improvements in both Canadian and American industries.

Despite poor market conditions, lumber production capacity in both the U.S. and Canada has increased over the past seven years. In order to understand this apparent paradox one needs to look back to the 1970's. At that time, it was generally believed that the 1980's would be a growth decade for lumber. All of the demographics pointed to it. The baby boomers were going to be buying their houses and starting their families. Mills everywhere invested in new technology and upgraded their facilities in expectation.

With the hindsight of history it's easy to see that the predictions were wrong, but the investments, and subsequent belt-tightening during the recession, did create significant productivity increases in Canadian and American wood products industries.

And as the upturn began in 1983, more efficient than ever mills began producing more lumber, with fewer people working in them.

Customer preference has been the third factor influencing competition in the lumber market. Lumber products are not all the same, nor totally interchangeable with each other. Anybody who has ever framed a house, or used chemically treated lumber, can attest to the fact that species differences are important.

Depending on the end use, customers will pay more for the special qualities associated with different types of wood. Two well-known characteristics of Southern Yellow Pine, for example, are its strength and the fact that it takes chemical treatment well. Canadian Spruce-Pine-Fir, on the other hand, is known for its lightness and the fact that it is easy to work with.

UNAVAILABLE

As Attachment No. 10 demonstrates, carpenters framing houses in the U.S. South are willing to pay a premium for Canadian Spruce-Pine-Fir over Southern Yellow Pine. They say it is more stable and easier to pound a nail into.

The third major myth is the myth that Canadian lumber industries have been faring much better than their American counterparts.

Though some regions have fared better than others, lumber industries as a whole in North America have suffered major reductions in numbers of employees.

Some were victims of the recession: others of technological change. As shown in Attachment No 11, the lumber workforce in Canada fell by over 18 percent between 1978 and 1984. During the same period, the number of U.S. lumber workers dropped just over 14 percent.

As far as overseas markets are concerned, U.S. and Canadian producers share a common problem: currencies which have increased substantially against those of our trading partners abroad.

The Canadian dollar has fallen considerably against the U.S. dollar. Against other currencies, however, it has appreciated. As a result, North American lumber shipments to overseas markets have fallen. To make matters worse, the currencies of our major Scandinavian competitors have been devalued, allowing them to increase their market share.

U.S. overseas shipments dropped by 345 million board feet last year compared to 1980 levels. Canada posted a comparable loss of 461 million board feet.

In sum, the difficulties assailing the North American lumber market are not isolated or unique. They are a symptom of a much larger problem: the strong U.S. dollar, and the threat of new era of protectionism.

The final myth is that Canada is overcutting its forests and not practicing responsible forest management. The facts say otherwise. Canada practices sustained yield forest management. But sustained yield means different things in different forests. In Canada, the timber is—and will continue to be for the most of the next century—primarily old growth timber. If old growth timber is not harvested in a timely fashion, it becomes overmature and less valuable; it is not responsible forest management to allow older portions of the forest to rot and die.

Despite the prevalence of old growth timber, Canada has been stepping up its reforestation efforts dramatically. Seedlings produced for planting have increased from 200 million in 1976 to 560 million in 1984, and further increases are scheduled for future years. In British Columbia, planting is now being done at a level comparable to the rate in Finland, which is often held up as a model of forest management.

Because the forest is such a critical resource for Canada's future, forest management will continue to be a high-profile topic of debate. But the charge that Canada is somehow liquidating its forests simply misses the mark. Our policy is responsible, our efforts are increasing.

Both countries have said they want fair and freer trade. They've got it in lumber. The hard part is living with it for the time being, until some of the underlying economic factors change. The world's largest trading partners owe it to each other to try.

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ATTACHMENT 1

ATTACHMENT 2

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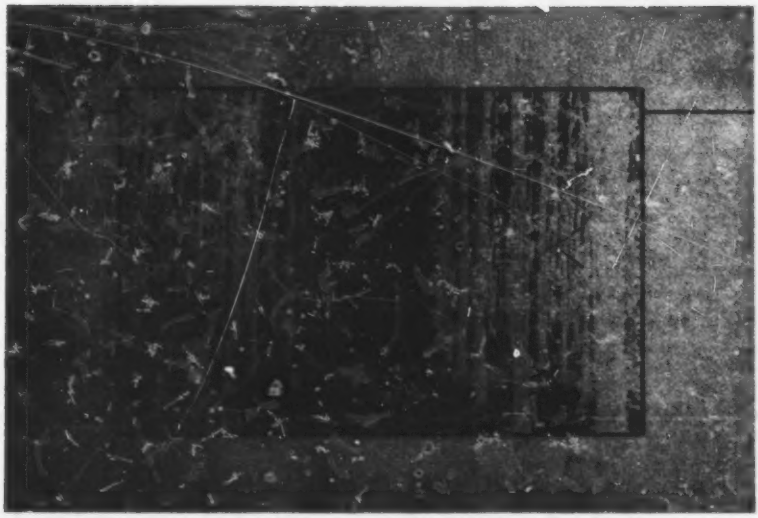
ATTACHMENT 3



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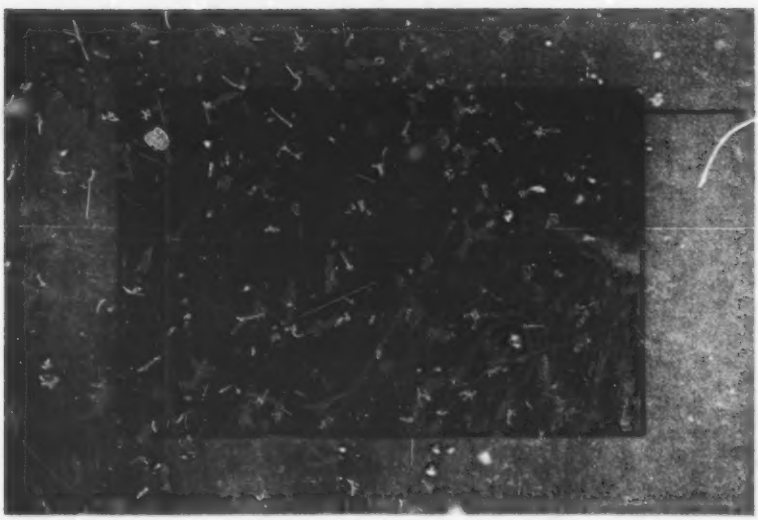

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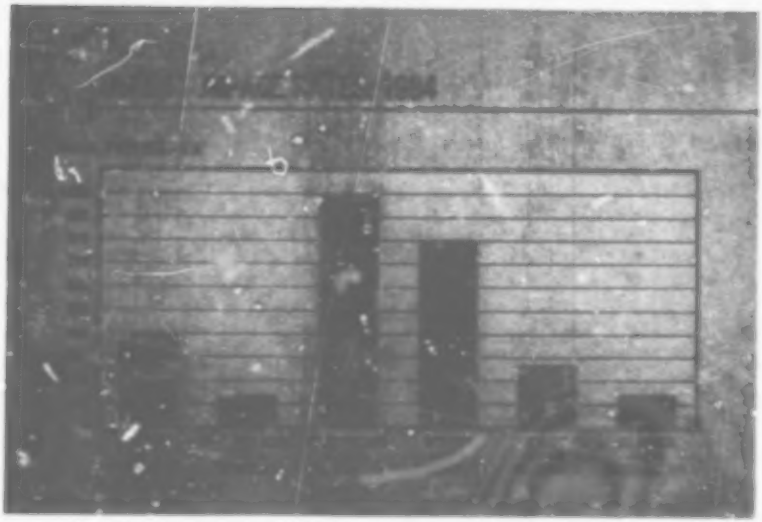

ATTACHMENT 6

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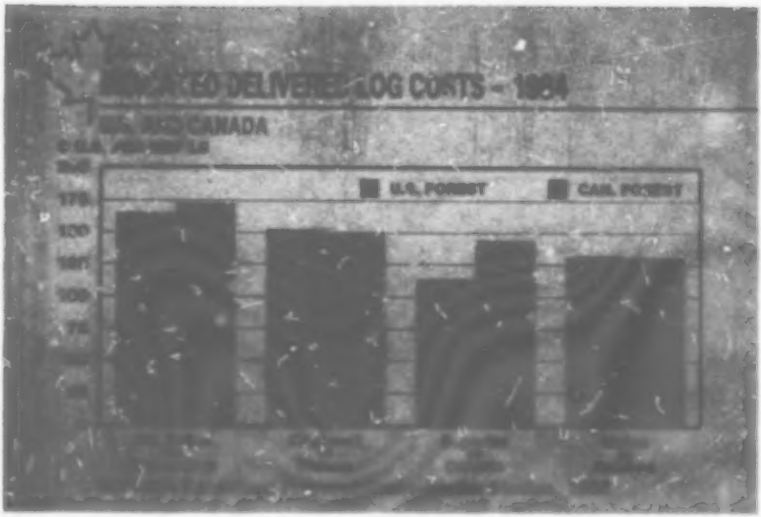
ATTACHMENT 7



ATTACHMENT 8

WHAT ARE THE MAIN FACTORS INFLUENCING COMPETITIO
IN THE U.S. LUMBER MARKET?
Productivity Improvements
Customer Species Preference

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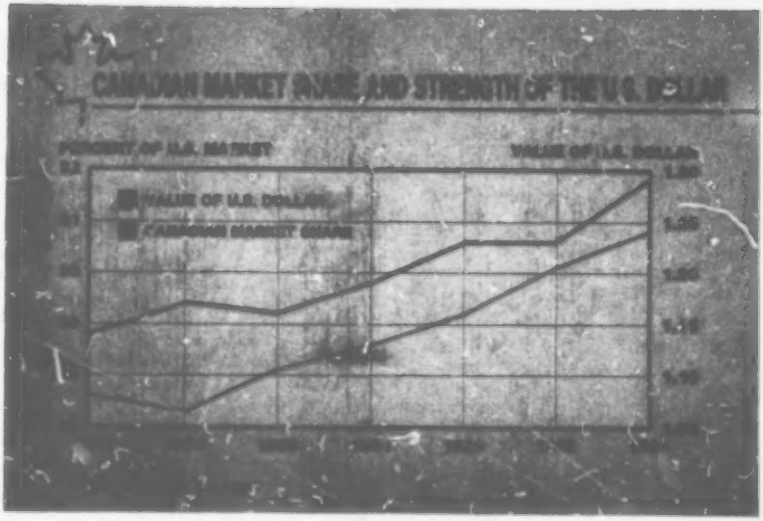
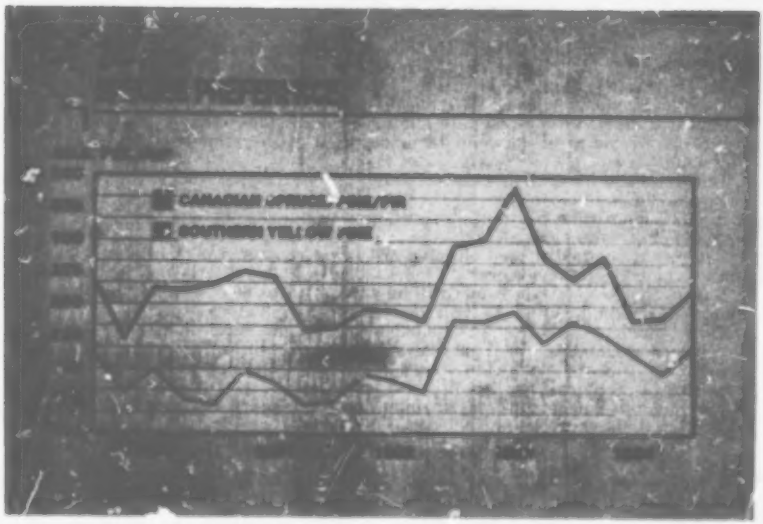
ATTACHMENT 9



ATTACHMENT 10



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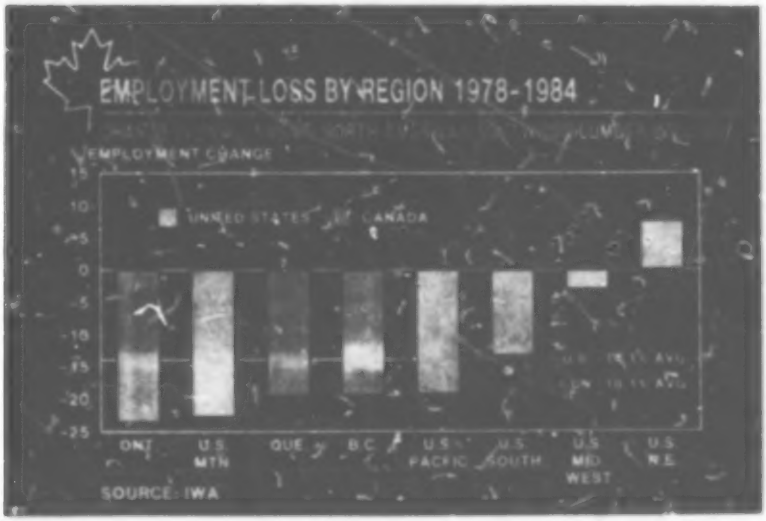
ATTACHMENT 11



FACTS ABOUT CANADIAN LUMBER

U.S. lumber producers admit that domestic capacity falls far short of U.S. demand.

The Canadian share of the U.S. market grew between 1978 and 1984 by an average of only 0.6 percentage points per year.

Average stumpage prices vary more between Oregon and Colorado than between areas in the U.S. and Canada.

Stumpage reflects the value of standing timber under certain conditions.

Average 1984 U.S. Forest Service stumpage prices ranged from $14/mbf in the Rocky Mountains, to $27/mbf in the East, to $81/mbf in the South, to over $100/mbf in the Pacific Northwest.

Indicated delivered log costs are similar on both sides of the U.S.-Canada border.

U.S.-owned companies account for about 25% of the lumber produced in British Columbia.

Ten years ago the U.S. and Canadian dollars were at par; today, the U.S. dollar is worth $1.35 Canadian.

In 1984, more than 550 million seedlings were grown for planting in Canada, up from 200 million in 1980.

Cut-over areas in British Columbia are being replanted at a rate comparable to that of the U.S. National Forest.

Buyers in the U.S. South are willing to pay up to $60 per thousand board feet more for Canadian SPF studs than for U.S. Southern Yellow Pine.

"The Canadians seem to have a much better system of how they sell their timber. It is also Government-owned, but it is a little more realistic."—Senator Symms.

Between 1978 and 1984, the lumber work force in Canada fell by over 18%; the number of U.S. lumber workers dropped just 14%.

Recent profit margins in the Canadian lumber industry are less than half of those in the U.S. industry (1.4% in Canada; 3.9% in the U.S.)

Sawmill capacity utilization in Canada was approximately 86% in 1984, barely above the U.S. rate of 83%.

Lumber constitutes 20% of a home builder's construction costs.

A $1,000 increase in the price of an average new home means that 300,000 additional U.S. families cannot qualify for a mortgage.

U.S. studies show that passage of the Gibbons bill would cause the U.S. economy to gain at most 9,000 jobs while 275,000 jobs.

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Canada and the U.S. are the world's largest trading partners.

U.S. exports to Canada are double U.S. exports to Japan, and greater than the combined total of U.S. exports to the 10 Common Market countries.

Much of the equipment used in the forest industry in Canada is purchased from U.S. manufacturers.

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APPENDIX L: AGENDA AND LIST OF PARTICIPANTS AT KEIDANREN MEETING AND MEETING WITH LIBERAL DOMOCRATIC PARTY DIET MEMBERS, AUGUST 7, 1985

Meeting With Members of U.S. Subcommittee on Trade, Committee on Ways and Means of the U.S. House of Representatives

14:00–15:30

Wednesday, August 7, 1985

at Keidanren Kaikan, 8th Floor, Room Zao

1. Greetings: Mr. Norishige Hasegawa, Vice Chairman of Keidanren, Director and Counselor of Sumitomo Chemical Co., Ltd.
2. Remarks: Hon. Sam M. Gibbons, Chairman of Subcommittee on Trade, Committee on Ways and Means.
3. Exchange of Views:
4. Closing:

List of Japanese Participants

Norishige Hasegawa, Vice Chairman, Keidanren; Director & Counselor, Sumitomo Chemical Co., Ltd.
Toshio Nakamura, Vice Chairman, Keidanren; Chairman, The Mitsubishi Bank Ltd.
Eishiro Saito, Vice Chairman, Keidanren; Representative Director and Chairman of the Board of Directors, Nippon Steel Corporation.
Nihachiro Hanamura, Vice Chairman, Keidanren; Chairman of the Board, Japan Air Lines Co., Ltd.
Seiki Tozaki, Committee on Distribution, Keidanren; Chairman, C. Itoh & Co., Ltd.
Ryoichi Kawai, Committee on Industrial Policy, Keidanren; Chairman of the Board, Komatsu Ltd.
Akio Morita, Committee on International Investment and Technology Exchange, Keidanren; Chairman & Chief Executive Officer, Sony Corp.
Toshikuni Yahiro, Committee on Foreign Trade, Keidanren; Chairman of the Board of Directors, Mitsui & Co., Ltd.
Yoshio Okawara, Special Adviser, Former Ambassador to the U.S.
Masataka Okuma, Senior Advisor, Nissan Motor Co., Ltd.
Masaya Miyoshi, Senior Managing Director, Keidanren.
Yusaku Onaga, Managing Director, Fujitsu Ltd.
Tateuo Yoshida, Managing Director, The Industrial Bank of Japan Ltd.
Keijiro Koyama, Managing Director, Keidanren.
Minoru Makihara, General Manager, Marketing & Coordination Dept., Mitsubishi Corporation.
Tsuguio Ibayashi, Managing Director, Japan Institute for Social and Economic Affairs.
Kazuo Nukazawa, Director, International Economic Affairs Dept., Keidanren.
Kazuo Koike, Director, Office of Chairman, Keidanren.
Yoshio Nakamura, Senior Assistant Director, International Economic Affairs Dept., Keidanren.

Working Lunch

List of Participating Members of the Special Committee for International Economic Measures of the Liberal Democratic Party—August 7, 1985

Chairman Masumi Esaki, Deputy Chairman Tadashi Kuranari, Vice Chairman Wataru Hiraizumi, Vice Chairman Iichiro Hatoyama, Vice Chairman Yoshiro Hayashi, and Secretary Yukihiko Ikeda.

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APPENDIX M: SUMMARY OF ACTION PROGRAM RELEASED BY JAPANESE GOVERNMENT, JULY 1985

EXECUTIVE SUMMARY

(Prepared by the Government of Japan)

On July 30, 1985, the Government of Japan announced an Action Program which includes nearly 90 concrete measures on standards to improve access to the Japanese market.

Together with these market access measures, Prime Minister Nakasone announced two more important points: domestic demand expansion, and better alignment of exchange rates.

With these measures coupled with exporters sales efforts, it is hoped that U.S. exports to Japan will be substantially increased.

1. Domestic Demand Expansion

Special Working Group will address various issues such as: Deregulation; 5-day work week; injection of private sector vitality in public works; and review of the tax system.

2. Better Alignment of Exchange Rates

Japan welcomes a stronger yen, and is pursuing Financial/Capital liberalization to achieve this objective.

U.S. policies conducive to this purpose are more than welcome.

3. Action Program

(1) Tariffs: Japanese average tariff rate is already the lowest in the world. The Japanese Government announced further tariff cuts of some 1,850 items last June 25.

On top of this, it is announced today that tariff on plywoods, which is of strong U.S. interest, will be cut as from April 1987.

(2) Standards and Certification/Import Process: After thorough examination of the existing system, nearly 90 points have been identified for improvement—all with specific timetable for implementation.

Much emphasis was placed on:

Introduce and expand self-certification (13 cases);

Accept foreign test data: Self-generated data—(clinical testing, telecom terminal equipment, "preferential handling procedure for imported vehicles"); foreign testing organizations.

Ensure transparency by allowing foreign participation in one way or another in all councils, committees related to standards drafting or modification;

Set standard time-limits to processing of all certification cases;

Simplify import process: Expand scope where import notification is not required, or made on a comprehensive basis; delegate of procedures to customs services (pharmaceuticals and medical equipment).

Minimize government intervention (concrete examples attached).

(3) Financial/Capital Markets: Liberalization of financial/capital markets have made good progress hitherto. The Action Program gives further boost to this momentum.

Liberalization of Market:

Remove and relax interest rate ceilings on large denomination deposits by the spring of 1987. Liberalization of small denomination interest rates will follow. Inter-bank deposit rates will be liberalized through deregulation of large denomination deposits.

Create bond future market (October 1985).

Introduce dealing of yen denominated BAs by securities companies (April 1986).

Introduce transactions without collateral in the call money markets (end of July 1985).

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Efforts to develop short-term government bond market.

Improved Access: Nine foreign banks (6 U.S.) will be granted entry for trust banking activities and will be promptly licensed. Tokyo Stock Exchange Ad Hoc Committee will reach a conclusion around this fall on how its membership will be expanded to include foreign members. Future development of the Euroyen Market being an important step towards internationalization of the yen, further development and diversification of the market will be pursued, including authorization of floating rate notes (spring 1986).

(4) Government Procurement: Point to reduce single tendering and expand competitive tendering, through:

Repetitive re-tendering; review of terms and conditions of tendering; extension of bid time from 30 to 40 days; extension of delivery time; provision of information.

In addition, the following measures will be taken to facilitate foreign entry in government procurement:

Single, unified qualification criteria/rating system for qualification of suppliers for each entity;

Single, unified qualification procedure for each entity;

In qualification of suppliers, capability/performance of foreign parent companies shall be considered.

Sixteen government related entities will be added for the coverage of GATT code procedure.

(5) A follow-up mechanism will be set up headed by the Chief Cabinet Secretary and under the strong direction of the Prime Minister.

ATTACHMENT

The following are just a few examples to illustrate what lies behind the rather technical facade of standards questions.

COSMETICS

Introduction of Comprehensive License/Notification in place of Individual Licensing System (5 kinds of cosmetics per year for three years initially, and futher measures thereafter).

Currently, different types of manicure products, for instance, require individual licenses for manufacturing/import. This process involves 84,000 licenses per year.

Under the new system, *a positive list of permissible ingredients* and other comprehensive criteria for licensing will be set for each kind of cosmetics, and any type of manicure falling within the criteria will require only notification for manufacturing/import once license is granted. A *negative list of prohibited ingredients* will also be made available. This measure will *slash annual licenses by 60% in the three years*, and further thereafter, radically expediting the whole process.

MEDICAL EQUIPMENT

Delete about a *quarter of equipment approval procedures*, partially by shifting certain products to the Japanese Industrial Standard (JIS) system, compliance with which render approval under the Pharmaceutical Affairs Law unnecessary. (Measures to be taken for three consecutive years initially, and further measures thereafter.)

AUTOMOBILES

Creation of the "*Preferential Handling Procedure for Imported Vehicles.*" (By the end of the year.)

This is an improvement of the current "Handling Procedure for Small Quantity Vehicles" (applicable to up to 500 vehicles per type per year) to further facilitate small quantity importation of cars. For large quantity imports, the present "Type Designation System," in our view, is adequate.

The prime objective of the new system, applicable to up to 1,000 vehicles per type per year, is to *enable sales to commence without delay upon landing of the cars*, and this will be done by *accepting manufacturer-generated data* for both safety and exhaust emission standards compliance (presence of MOT official required for latter testing). Thus, if U.S. manufacturers will modify their cars in the factory, most of document processing can be done while the cars are being shipped and the cars will be ready for sale upon landing. *The inspection of cars will also be speeded up from one car per hour to 50 cars per day.*

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ELECTRICAL APPLIANCES

Transfer of items from government-certification category to self-certification category. (Within 3 years.)

The Electrical Appliance and Material Control Law has two categories of certification—Category A where items must be government-certified (425 items) and Category B where standard compliance is self-certified (72 items).

Items will be transferred from Category A to Category B, and *items covered by Category B, i.e., self-certification, will be tripled in three years.*

SOME OTHER IMPORTANT DEVELOPMENTS

Acceptance of data generated by foreign testing organizations in application for JIS marking permission by foreign manufacturers. *This renders unnecessary initial inspection by MITI official.* (Within FY 1986.)

Direct designation of foreign testing organizations for Japanese Agriculture Standard (JAS) Law, Electrical Appliance and Material Control Law, etc. This does away with the burdensome indirect, contractual method of utilizing foreign testing organizations, which has been a source of complaints including grievances that proprietary information is sometimes requested. (Within 3 years.)

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APPENDIX N: SUBMISSION BY THE PEOPLE'S GOVERNMENT OF GUANGDONG PROVINCE, AUGUST 22, 1985

A Brief Introduction to the Situation of Openess to the Outside World in Guangdong Province [1]

PART I.—GUANGDONG IN GENERAL

Guangdong silhouette

Situated in the southernmost part of China, Guangdong province has 4,300 km coastlines, covers an area of 212,000 km^2 with a population of 61 million. The jurisdiction divisions under the province are 1 administrative district (Hainan Island and Nan Hai archipelagos), 16 cities and 93 counties. Guangzhou, the capital of the province, has a population of 3.15 million in its city proper.

Climate, produce and natural reserves

By locating in the tropical-subtropical zones, Guangdong has a warm climate and abundant rainfalls and is one of the main rice producing regions in China. It is specially suitable in producing sugar cane, rubber, and sub-tropical fruits. The annual catchment of freshwater fish farming tops the nation.

It has rich mineral reserves and the prospect for the offshore oil fields in the South China Sea is promising.

Industry

With the well-provided facilities and professionals, the industrial items of sugar refinery, textile, paper making, ship building and machinery in Guangdong are comparatively developed and household electric appliance, electronics and building materials witnessed a rapid growth in the past few years. The traditional local handicrafts—fireworks, firecracker, fine drawn works, embroidary, ivory carving, jade carving, artistic ceramics and rattan ware are made with exquisite craftsmanship and exported to many countries.

Overseas connections

Guangdong is adjacent to Hong Kong and Macao. Numerous ethnic Chinese overseas originated here. It also has an easy access of water, highway and air transportations to other parts of the world. Guangdong has frequent exchanges with foreign countries and plays an important role in China's foreign trade. The biannual Chinese Export Commodities Fair, which was first held in Guangzhou in 1957, is attended by 20,000 businessmen from 100 countries and regions in recent years.

PART II.—ACHIEVEMENT OF THE OPEN POLICY

The Characteristics Born Off Open Policy

In 1979, with the consideration to further tapping the availabilities and speed up the economic construction in Guangdong and to gain experience of opening to the outside world, the Central Committee of the Communist Party of China and the Central Government approved Guangdong and Fujian to implement special policies and flexible measures in their external economic activities. These policies and measures centre on the following two main points: to offer more opportunities to investment from overseas than other provinces, to adopt more flexible and efficient measures to invigorate the domestic economy and to authorize more autonomy rights to enterprises and administrations at various levels in the provinces; to establish "special economic zones" (SEZ) in the cities of Shenzhen, Zhuhai and Shantou (formerly referred as "Swatow" in English), exercise the economic policy similar to SEZ in Hainan Island, select Guangzhou and Zhanjiang as open coastal cities and designate Pearl River Delta Economic Zone constituted by cities of Fushan, Jiangmen and Zhongshan and another 13 counties.

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[1] Compiled by the Secretariat Office of the People's Government of Guangdong Province.

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Encouraging situation in the local economy

THE SPEEDING UP OF ECONOMIC CONSTRUCTION

[In billions of yuan]

Item	1984 statistics	Annual increase rate (percent)
Social production value	77.58	11.8
Total agriculture and industrial production value	53.55	11.4

The increase rates are both higher than the national averages in the corresponding period.

The brisk market and stable prices

The increasing purchase power and the sufficient supply of goods bring about the flourishing market both in urban and rural areas: the total value of retails of 1984 was ¥27.33 billion increased by 160% as against 1978 with an annual progressive rate of 21%, in the meantime, the general index of retail price was only 1.2% higher as compared with 1983.

The introduction of overseas investment and rapid growth of foreign trade

The number of contracts with overseas investment involved signed by the end of 1984 totalled 50,000 with a contracted capital ammounted to US $7 billion and out of which, US $1.9 billion has been put into use. The economic-technical cooperations are witnessed in all sorts of trade, the development of the province's economy has been accelerated. On the other hand, the investors gain profits.

The volumn of export in 1984 increased 1.4 times as against that of 1978, which means that since the adoption of the open policy, more overseas markets were opened.

Tourism is booming. With the improvement of facilities and service quality the year 1984 brought about 11.98 million tourists to the province. In the past 5 years, a number of hotels and restaurants were built or renovated from overseas and now hotel beds have increased 9 times more as against that of 5 years ago.

The progress of science and technology

In the past 5 years, the value of equipment and good breeds of stock and seeds introduced from abroad totaled nearly US $1 billion and a number of manufacturing enterprises were transformed, and exchange of science and technology with other countries were conducted.

Processing and assembly business with overseas partners is dealt in most of the cities and counties of the province with nearly 500,000 people engaged.

The swift construction in special economic zones and open coastal areas

Among the SEZs in this province, Shenzhen SEZ is the most important one attracting the attention of investors both at home and abroad. Both of its industrial production value and revenue have increased by a big margin in the last few years. It has been trying every effort to play the role of "window" in introducing sophisticated technology, advanced management and knowledge and in implementing the policy of opening to the outside world in China's socialist modernizations.

Marked improvement of people's life

The average salary of wage-earners (employees of state or collective owned enterprises) in 1984 increased 70.6% as compared with that of 1979, and by deducting the effects of price, the net income of wage-earners increased 36.4%. The farmers' net income in the meantime increased 90% with an annual progressive rate of 13.8%, while in the previous two decades the rate was only 3.3%. Employment in the 5 years has increased 2.54 million. The total sum of bank savings of the urban and rural inhabitants is 8 times more than what it was 5 years before.

The synchronized building up of socialist cultural civilization

Along with the construction of socialist material civilization, noted developments are also witnessed in the undertakings of education, culture and other fields. The ideological consciousness of the people have been heightened and find social conduct cultivated and good social order maintained.

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The training of managerial personnel

During the process of opening to the outside world, a number of managerial staffs have been trained and certain advanced managerial methods introduced into their professional operations. The correctness of our state policy of opening to the outside world and invigourating domestic economy and the decision of implementing special policies and flexible measures in external economic activities by provinces of Guangdong and Fujian is proved by the facts listed above. Our experience gained in the past five years is most valuable. Added with out practice of taking the pilot role in opening to the outside world, a good foundation has already been laid for carrying out further economic cooperation and exchanges with foreign countries.

PART III.—THE PROSPECT OF FURTHER ECONOMIC-TECHNICAL CO-OPERATIONS ON LARGER SCALE

The advantage for Guangdong to further her co-operation with outside

The promising prospect of Guangdong's economic and technical co-operations with partners from overseas is backed by her bestowed natural environment and resourceful reserves and her convenient transportation. Among the nation's 22 cities and regions opened for foreign trade and investment 7 are in Guangdong. With the efforts made in the previous years, the environment for investment has been greatly improved and better service can be provided in transport, communication, housing and shopping. In the future we are going to take more positive steps to expand our economic co-operations and trade exchanges with other countries and regions of the world.

The outline of construction in the province

With further expansion of external economic and technical co-operation, we plan to speed up the construction in the forefront belt where a more open policy is implemented: the three Special Economic Zones of Shenzhen, Zhuhai and Shantou, the two coastal cities of Guangzhou and Zhanjiang, the island of Hainan and the Pearl River Delta Area; to turn them into inlets for introducting technology, managerial system and knowledge, and windows to demonstrate in a concrete way our external policies; to turn them into advanced wealthier regions with developed economy and culture and modern science and technology so as to guide and assist the mountainous and other regions in the province and accelerate the economy of the whole province.

Goals and measures

We are confident to realize the strategic target set forth by the CPC 12th National Congress to quadruple the total production value of industry and agriculture of 1983 about 5 years ahead of schedule and raise the living standard of the people in Guangdong to a comparatively welloff level sooner. To attain this goal, the stress of work must be laid on the reform of economic structure, speed-up the introduction of foreign capital and world advanced technology, the construction of energy, transportation and communication projects, the technical renovation of the existing enterprises and as well as on our internal co-operations with interior provinces, cities and regions.

Our intended key projects for co-operation with overseas partners

Energy, transportation and communications

The priority is to be given to energy, transportation and communication projects. In addition to constructing a nuclear plant, we intend to build a series of large sized thermal power plants, a number of medium and small sized hydor power plants. For transportation, we are going to accelerate the railway construction of the double track projects of Hengyang-Guangzhou railway and Guangzhou-Shenzhen railway and the tracking of Shanshui-Maoming section; to pace up the super highway projects of Guangzhou-Shenzhen-Zhuhai and Guangzhou-Fushan sections as well as to transform some arterial trunk highways; to continue the projects of expansion on the harbours of Huangpu and Zhanjiang and to build the deep water harbours of Chiwan in Shenzhen and Yangpu in Hainan; to develop coastal and inland water transportation and ocean shipping, to upgrade local and trunk telecommunications system and to install step by step optic fibre system so as to facilitate the whole economic development. The expansion of airports is also in our blueprints and the proposal to establish local aviation company is under study.

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Industry and manufacturing

The stress of technical transformation is put on light industry, textiles, foodstuffs, building materials and machine building so as to develop high grade food, drinks, packing and containing materials, top quality ceramics and dacron filament, chemical fabrics, woolen textiles, new building materials and light duty machinery.

Natural resources

Along with the development of the offshore oilfields of South China Sea, to develop the related industries of oil processing, petro-chemical and natural gas utilization and to build several oil supply bases. To build non-ferreous metal mining—metallurgical base in North Guangdong centering on lead and zinc mining. The two steel works of Guangzhou and Shaoguan will be expanded.

Newly developed industries

To build up the newly developed industries with emphasis on electronics, microcomputer, instruments and metres, bio-engineering, precision chemicals, new materials and ornamental building materials.

Agro-production and processing

To introduce advanced agro-techniques especially the techniques of tropical crop cultivation, good strains of seeds and breeding stocks, aquatic and freshwater fish farming, deep sea fishing, agro-produce processing and fresh vegetables and fruit preservation.

Tourism and urban construction

To develop tourism with the focus on the four popular tour routes of Guangzhou-Shenzhen, Guangzhou-Zhongshan-Zhuhai, Guangzhou-Shaoguan and Guangzhou-Zhaoqing, to establish new tourist attractions, to continue the transformation of hotels and restaurants and to increase more facilities for tourism.

The key points of urban construction are: development of public utilities, renovating and building of apartment houses, increasing cultural facilities, and well-protection of environment.

All forms of trade, economic co-operation, and investment initiated by foreign partners—consortium and enterpriser—are both welcomed in Guangdong. We'll offer our assistance and preferential treatment to the participants in accordance with policies concerned.

PART IV.—THE PREFERENTIAL TREATMENT ENCOURAGING INVESTMENT FROM OVERSEAS

A policy attracting investment and encouraging economic-technical co-operation is applied by the Guangdong People's Government in accordance with the regulations of the State which is listed as follows:

Preferential taxation

The levy, exemption and reduction of income tax

The enterprises of joint-venture, co-operation production and sole foreign capital established in the SEZ, Hainan Island, and the Economic-Technical Developent Zones of Guangzhou and Zhanjiang will be levied a company income tax by the rate of 15%, in the Pearl River Delta Economic Development Zone by 80% of the present rate. The legitimate interests of overseas partners, when remitted from China, are exempted from remittance tax in accordance with the regulations.

Projects of energy, transportation and harbour and items fall into the category of technic-intensive and knowledge-intensive run by the foresaid enterprises or investment exceeds US $30 million and productive items which need longer time to recover their investments in the jurisdictive areas of the municipalities of Guangzhou, Zhanjiang, Zhuhai and Shantou can also be levied a company income tax at the rate of 15% upon the approval of the higher ups.

China's law of taxation stipulates that joint-venture enterprises with successive operation over 10 years may enjoy the right of exemption from income tax both at the first and second profit-making years and half reduction of income tax in the third, fourth and fifth years. This regulation is also applied to the enterprises of co-operational production and sole foreign capital invested natures in the light of actual conditions before a new taxation law is decreed.

To those enterprises engaged in low-profit operations such as farming and forestry, or enterprises established in remote and economically underdeveloped areas, they may not only enjoy the above mentioned preferential treatment, but may also be allowed, upon approval, a 15–30% reduction in income tax for a period of ten

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years following the expiration of the term for exemptions and reductions mentioned in the preceding paragraph.

The exemption and reduction of import duties and commercial tax

The exemption from custom duties and commercial tax is offered to the import of equipment which is listed in the contract and the materials and parts needed by the establishment of the enterprises of Chinese-foreign partnership and foreign appropriatorial invested and managed enterprises engaged in energy exploration, capital constructions of railway, highway and harbour, industry, agriculture, forestry, animal husbandry, poultry and fish farmings, deep sea fishing, science research, medical care and public health.

This exemption is also offered to the projects of tourist hotel in the nature of joint-venture or co-operation when the construction materials and the subsidiary equipment is needed to be imported.

When the products turned out by the above mentioned enterprises should be exported, the exemption of industrial-commercial tax of the production proportion is offered. When the products of the above mentioned enterprises are authorized to sell in the home market and needed to be dealt with more preferential treatment, the exemption and reduction of industrial-commercial tax may be granted for on application filed by the enterprise.

The stipulation of exemption from customs duty and industrial-commercial tax includes the items of company-owned means of transportation, office equipment of the registered joint-venture and co-operation enterprises and to the items needed for the settlement of the families and transportation means owned by employees from the foreign partner's side.

The exemption from tax for franchise and loan interest cases

The fee of franchise used and the loan interest of the investors in the SEZ, ETDZ, Hainan Island and Pearl River Delta EZ reducted a rate of 10%, instead of the original rate 20% paid in installments is praciced. To the favourably offered franchise with advanced technology and low-interest loan, the exemption can be approved upon application.

Other preferential treatment

Following the authorization of the state and taking into consideration the specific cases of the overseas-capital-involved projects, exemption or reduction of tax can be approved to the real estate tax, land royalty and land leasing rent.

The arrangement of home marketing for the products by the foreign capital invested enterprises

It is logical, in normal cases for the joint-venture and foreign appropriatorial management enterprises to sell or partially sell their products abroad to keep a balanced account of foreign exchange. To serve the purpose of attracting more foreign capital and introducing more advanced technology, a certain proportion of their products is granted to sell in China's home market, a larger proportion for home marketing will be granted provided that products belonging to the type of tech-intensive and knowledge-intensive, even a greater proportion can be arranged for the home market provided that the products are needed in the home market and bearing high tech nature.

Favourable arrangement is also provided to those products of high quality turned out by hightech equipment in enterprises of joint-venture, co-operation production and foreign appropriatorial management in the ways and channels of marketing, and its pricing will be dealt flexibly according to the principle of good price for good quality. Raw materials, parts and fuels for producing such products are to be purchased from China's home market, favourable price could also be offered.

The protection of the interests of overseas investment

The guiding principle for China to absorb investment from overseas is equality and mutual benefit and the legitimate rights of foreign commercial and industrial firms, legal persons, ethnic Chinese overseas and compatriots from Hongkong and Macao who conduct various forms of economic-technical co-operations or invest in our province, will be well protected by the Constitution and laws of China. Great importance has been attached by the People's Government at all levels, by responsible departments and enterprises engaged in economic-technical co-operations with overseas partners to the abidance of contract and the value of our own credibility. The principle of mutual benefit and equality should be followed and the way of friendly consultations should be performed in dealing with disputes which may

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happen in the implementation of the contracts so as to reach a fair and satisfactory settlement for all parties.

The providence of free choice on the form of investment and the ensurrance of managing autonomy

The flexibility in absorbing foreign investments is well performed by our province. The forms of co-operation with overseas investors can be various: to establish and manage an enterprise with direct investment, to participate in a joint-venture business or co-operation production, to sign a contract to provide raw materials or parts or assembly business, or in the ways of compensation trade, leasing or investor propriatorial management. No matter which form is selected it will be dealt on the bases of satisfactory to both parties and in the light of equality and mutual-benefit. The co-operation period ranges from 10 to 30 years normally, but in cases which involve large investment, long circling period of investment recovery and the low-interest projects, the co-operation period may be extended to over 30 years.

With the prerequisit of abiding China's laws and regulations and the administration provisions, the joint-venture, co-operation and foreign investor's propriatorial management enterprises have the right of autonomy in their own management following the agreement and contract. The board of directors has the final decision on the management of their enterprises.

What Chairman Deng Xiaoping said is absolutely valid: China's policy of opening to the outside world wouldn't be changed within this century, nor will in the first half of the coming century and will be most unlikely to be changed in the second half of the next century. It is also our long term, unswerving policy to uphold the principle of euqality and mutual benefit in our economic and technical co-operations with partners from overseas. Guided by this policy, our legislature is speeding up the pace to systematize our laws and regulations to meet the development of further opening to the outside world.

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APPENDIX O: TRANSCRIPT OF REMARKS AT DELEGATION BREAKFAST WITH THE INDO-AMERICAN CHAMBER OF COMMERCE, NEW DEHLI, INDIA, AUGUST 14, 1985

Representative SAM GIBBONS. Mr. Chairman and distinguished businessmen of India and my colleagues and members of the United States Embassy. We are pleased to be here. We realize that we're here on your Independence Day, starting at midnight tonight. We salute your country for the fine record it has compiled since its independence and we look forward to working with you in the future.

Two hundred years ago, when we first obtained our independence, the people in our country began to feud about who would control the external trade of the United States and they finally settled upon allowing the Congress to control the external trade of the United States. And that is our reason for being here today. This subcommittee of the Ways and Means Committee is principally responsible for settling the policy by which America conducts its external trade policy. Therefore your remarks, Mr. Chairman, about trade protectionism and things of that sort are to an appropriate audience.

We are proud to be India's largest trading partner. We believe in earning our way in the United States and we want to continue to earn our right to be your largest trading partner—by offering you the best market in the world and by offering you the finest goods in exchange, in the world, for that.

We are happy to offer you whatever technical assistance we can, and we are happy to offer whatever financial assistance we can. Let me say that the United States has been carrying a heavy burden for quite some time. Right now we are running a trade deficit of approximately 150 billion dollars a year. Since the 1970s we have probably run up almost a trillion dollars worth of trade deficit. All of that has had a subtle impact and a direct impact upon the American economy. Our steel business is in bad shape, our automobile business is in bad shape, our textile industry is having serious troubles and those are causing a great deal of economic dislocation in the United States. As we told the Japanese the other day, the American political system will not sustain that kind of substantial trade imbalances year after year after year without responding. And protectionism, unfortunately, has become the most attractive way, if perhaps the most unproductive way, to try to correct this problem.

We do not seek protectionism, though. When we were in Japan and talking to our Japanese trading partners we said we wanted them to open their market and to give us the same access to their market that they had to our market. We asked for no more. But we also told them something that I think will come as a pleasant surprise to you. We told them we wanted them to open their markets to the rest of the world as they should. I want to draw a comparison here, and I realize that sometimes comparisons can be quite odious. The United States absorbs 58 percent of all of the world's developing countries' processed products. Japan, on the other hand, only absorbs 8 percent of the world's processed products, yet Japan is the second largest economy in the world. It still prefers to act as if it were a developing country, so we are not only looking after our own interest in Japan, we're trying to look after the interest of the developing world there too.

I say all that to try to lay a predicate for explaining the kind of pressures that go on in the U.S. political system of which you are so aware. We will have some frictions in textiles. Our textile industry has been hit very, very hard and the textile industry in the United States has a lot of political clout because the textile industry is broadly spread throughout the United States, in many members' districts. Therefore there will be some legislation passing the Congress, perhaps as early as this winter, dealing with textiles. We're not sure whether any of that will ever become law because, of course, that must be approved by the President. He could veto it, and perhaps he will, and perhaps it will never become law. But that is something that you should be aware of.

We have just finished revising our generalized special preference laws of which India takes full advantage and gets quite a bit of benefit out of it and we have two members in the room here who played a particularly strong role in that. We have

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Mr. Pease and Mr. Frenzel who played a very important role in modernizing, in bringing our laws on preferences up so that India and other developing countries would have good access to the American market.

We come with no particular trade problem with India and we certainly don't want to create any trade problems. We applaud your government for having opened its system up to allow a bigger role for private business and private industry and we applaud the leadership that your Prime Minister is giving to your government. I've been in Congress now for 23 years, and I have heard many heads of state address the Congress, but I have never heard anyone who addressed it with such skill and with such sincerity and with such substance as your Prime Minister. I want to say that because it was such a pleasant surprise. We knew very little about your Prime Minister prior to his coming to the United States. He made an excellent impression.

We welcome many of your students to the United States, and we are glad that so many Americans feel at home here in India. We would like to have a discussion with you, though, Mr. Chairman, this morning, and with the other members of your Chamber of Commerce, now, about problems that you may have with the United States or mutual problems or suggestions we could give to each other. So, could we have the floor open for that kind of discussion. Thank you very much. (Pause)

I'm sure with all of the discussion that has gone on at each table that you're probably a little bashful to put it out in public about what has been going on in your minds, in your discussions at your table. I find next to me that we have an electronics manufacturer whose son is a graduate of MIT and who is purchasing component parts in the United States, assembling them here, and manufacturing some here, and he didn't complain of any problems. I'm glad of that; I'm not trying to create problems as I said before, but what's on your mind? What've you got to talk about? What message would you like to have us take back to the United States about India?

BINAY KUMAR of Banaras House Limited. Thank you, Mr. Chairman, for giving me this opportunity. The United States is the largest trading partner and we are proud of it and we value it very much. The thing which hurts the Indian exporter, by and large, is any sudden disruption of trade channel. We do not question your proprietary to stop a product for any reason whatsoever, because of your internal pressures, because of your problems of textile industry, unemployment, whatever it is; you have a right to do it. All we want is that sufficient notice should be given in advance so that the goods which have already been shipped against a valid LC, they are already on the high seas, they have already reached the New York port, are not hanging there for months together. And whom are you hurting? You are not hurting us—me and people sitting in the room—you hurt the poorest cross-section of the society in India. And so much so that the news goes around and people say look, if I can sell to EEC I don't want to sell to America because the moment it goes hot, the moment the goods start moving I may have a problem of sudden disruption. One example, Mr. Hand of course knows about it, is the pillow sham. On a pretext that the fringes sewn around the pillow sham by hand-operated 30-year, 40-year-old machines do not qualify for import. Just a few days before Prime Minister Gandhi was going to America we heard that okay, until August 31 the goods which have already arrived or are on the way will be allowed. Then we heard that after August 31 if the fringes around the pillow sham are sewn by hand needle they will be allowed. But one could also say that the needle was made by a machine. . . . This is just an example, sir, and it is not an isolated example, it is happening with America every alternate year. You have a proprietary right to stop any product, but all we want is give us sufficient advance notice.

GIBBONS. I think that's a good criticism. Would anybody from the U.S. side like to respond to that criticism? I'm embarrassed to myself.

BHAI MOHAN SINGH of Ranbaxy. I would like to make a little amendment to what Mr. Binay Kumar has said. The point is the same. We have similar problems in our country, too, but what really is needed is not the goods which have been shipped or which are at the ports, but any order which has been confirmed should not be disturbed and it should apply to everything else which has not yet been confirmed, because the moment an order is confirmed the dealer over here places orders, buys materials and makes so many other arrangements. So it should apply really to the non-confirmed order, but anything which has been confirmed between the two parties should not come under the purview of the changes that you may decide to make at the other end.

GIBBONS. We understand what you're saying. What you're saying is that where we have a restraint on importation of a certain type of goods you would prefer if we had a licensing system in the United States that would guarantee that once a license had been issued those products could be imported. Is that what you're saying?

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BHAI MOHAN SINGH. Sir, that is one, but now I'll give you a concrete example for India. For instance, in the summer months we have a large incidence of malaria, and for malaria we need a particular medicine called chloroquine which is an anti-malarial product which is produced in some countries in the world. India itself produces but not in sufficient quantity. And the government, in expectation that there is going to be an epidemic of malaria, says the import of chloroquine will be allowed to actual users or to people who have been importing in the past. They (the government of India) find in the month of May and June that there is no epidemic, therefore we did not need all that chloroquine. So anybody who already had confirmed orders with the buyer and the seller they say okay, this order will not be disturbed not anything which is not confirmed it will apply to them, they will not be allowed to import chloroquine anymore. So my mere point is that the man at the other end, he has contracted to supply and he is diverting his supply to me rather than to any other country. Similarly I have tied up my sources with that particular party. So all that I was trying to say was that everything which has been either confirmed by letter of credit or something of that kind, you can stipulate those orders will remain confirmed and the rest will be adjusted or changed.

GIBBONS. I think I understand your point. Still I would ask would any of my colleagues like to respond to that? Is the problem primarily in the area of textiles and garments? (affirmative response) It is. But that's really the only place other than steel that we have any substantial restraints that are quotas, we have some agricultural. . . .

KRISHAN MEHTA. The problem in my view is administrative because the Congress bans or passes certain legislation and administers it. And what is required is that three months be allowed after the banning of an entry. I think it is more of an administrative problem because these things are caused by an abrupt stop.

BILL FRENZEL. That's a real problem for our side because we have a system of quota calls and by the time we know foreign imports are beginning to build up and command too large a share of our domestic market, we suddenly find that every ship on the high seas is full of that particular product aimed at the United States. And we call those "surges" of imports, and those are particularly hard on our small towns where the textile mill may be the only important employer or the only employer at all. And we have to have some cut-off point. It is very difficult. If we could predict what those surges were we could make our quota calls with more routine and regularity so that you would understand them. But the way our markets work very quickly and the way our importers work, and the way you work, you immediately sense the market opportunity and then everybody jumps into it. And we have to have a cut off sometime or lose our entire domestic market to offshore production. We like to make it smoother, but it's very hard for us to do so.

KAMAL MEATTLE of Paharpur Cooling Towers. What I would like to say is that both our countries are democracies and India consists of more poor people and the Government of India has to reflect the policies or the aspirations of its people by and large. India has probably toed a middle line and no Prime Minister perhaps could come up and say that he is absolutely a capitalist or pro-West, so to say, because after all he has to get the vote from the average man who does not have too much. And the policy which, perhaps, the government has had is to keep an eye on that vote five years from the time they are elected. And hence, they found it, perhaps, much more convenient in dealing with societies or countries where there is a central government decision-making, for example, in the Soviet Union, where there is a team of people who come and sit across a table and decide what we are going to buy and what we are going to sell and how much trade are we going to do in a particular year.

Given the trade between the U.S. and India, that's not the situation. I don't think anyone can sit across a table and say this is what we are going to do and have the two people do that business. Hence, it is important for the private businessmen, individuals, to make contact and do business and do trade. I think what we have to do as a Chamber is to be a catalyst in trying to promote this trade in whatever way we can, and hence it could be diplomacy through trade or closer relations between the two peoples through trade rather than on political considerations only. Basically, the role of most of us would be to try to be more of a catalyst between the two peoples and promote interaction and hope that mutual business would prosper.

GIBBONS. You made an excellent point, sir.

WILLIAM THOMAS. It will be a two-way street instead of just a one-way street. And I support everything that the gentleman before me just said. And incidentally, it is the same in our country, and that is we get elected we have to listen to our constituents. Some of us have very deverse constituencies and therefore each segment's voice is not very great. Let me preface mine by saying that my particular district

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grows about 80 percent of the almonds that my country exports and when we talk about problems in the United States in terms of textiles, I think sometimes we aren't as smart as we could be because this is one individual who sits on the Committee that makes decisions on trade. And my almond industry will be cut in terms of exports to India by about 50 percent, when in fact if your country has a balance of payment problem with the world, it isn't with the United States, and it ought not to be with that product. Now, almonds have been put on the luxury list and therefore we feel the impact significantly and yet I am hearing that I have got to make sure that the 30-year-old machine sewing fringe on the sham is accepted and I have got to make sure that we make your cashews continue to come in the tremendous volumes that they do, and I am saying that there is a little bit of political insensitivity. I understand the problems that your elected people face, and we ask you to understand ours. Almonds aren't very large in terms of weighing on all the members. They are very heavy weighing on me.

SINGHANIA. Indeed a valid point and I'm sure that the people, and particularly in two democracies as we are, we do appreciate the problems that are forced on us—shall we say by our voters—and to that extent constrained in our policies. But the point which was being made was that we businessmen should act as catalysts in the trade, but at the same time, at least in this process, certain barriers, particularly for developing countries, if they could be taken care of, which should not be harsh on our trade, that would be to immense help.

GIBBONS. Do any of our Chamber of Commerce friends have licensing difficulties, in getting licenses to export from India?

BINAY KUMAR. Last year when we went in the delegation the hi-tech problem was there but I think it's been taken care of.

SINGHANIA. Gentlemen, we have an unique opportunity with the chairman here himself and a number of Congressmen whose support is so valuable to Indian trade, so don't miss this opportunity if there is any other point you would like to bring up.

S.N. VERMA. I think the lack of the double tax treaty between the United States and India is creating some sort of an impediment in the flow of technology from the United States to India, and I am a strong believer that political ties will automatically flow once there are strong economic ties. And if something can be done to speedily implement this treaty, or at least enter into some sort of a negotiation, it will be to the benefit of both the countries.

GIBBONS. I don't know why we haven't completed a treaty with you, but perhaps some of your Embassy staff can inform us?

GEORGE KENNEY. We had a delegation here two weeks ago from the U.S. Treasury, and we spent an entire week in serious discussions with the Indian Government, going article by article through a draft treaty. As you probably know, tax matters are rather complex, and tax lawyers talking with each other have to argue over every word and so there was no way in one week that we could get through this entire treaty. We're going to continue these discussions in the States in October and we'll have some further discussions, I think, after that. It is the first time we've had a serious negotiation since 1977, so I think you can say that it's a little bit encouraging now that we're sitting across the table actually talking about the specific language of a draft. So we've made some progress. I would not want to predict when this might be concluded because past experience tells us, and given the nature of the specific problems in this area, that I'm not sure that we can do it very quickly but we are at least on the road now.

GIBBONS. I'm glad to hear that there is some progress being made. I'm really surprised that we haven't concluded a treaty before this.

S.N. VERMA. I believe the problem which is coming, or where the two sides are not seeing eye to eye is in the computation of business profits. Under the laws in India there are hardly any branches, or no branches are allowed to be opened because of the Foreign Exchange Regulations Act being here. There are some branches of banks and other old companies who have not Indianized. The problem is all coming because of the tax bearing situation and I believe that if in the treaty to be negotiated the tax bearing part, that's the business profits, if they are kept out of the treaty and the other points are taken into account, I think a beginning in the right direction would be made and business profits could be taken up at a later date.

GIBBONS. You've come to the right place to complain about that because we write the tax laws in the United States and we're about to rewrite all those tax laws. I was surprised to know that we did not have a tax treaty with India. We have completed tax treaties with most of the other former Commonwealth countries, except the ones that are tax havens, and I have never heard that India was a tax haven and I'm surprised that we haven't gotten on with it. And it's certainly something that must be done with us being the largest trading partner.

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KENNEY. The fact is that the U.S. Senate has never approved a treaty that had a tax-sparing clause.

GIBBONS: Your biggest trading partner deserves through consideration and active consideration of a tax treaty. We may have some trouble with it but we ought to at least get the trouble laid out and on the table.

FRENZEL We ought to discuss this a little bit. Members of our Committee do not understand this. . . . If you come to India and you start an American company, the Government of India gives you a good tax deal for seven years and what the United States wants to do is go . . . to some of the tax benefits that India has given the American company. And India says to hell with you, we don't want you to take our good Indian money and tax it back. It's the same problem we have with the California Public Utilities Commission and with the states of the United States when we give a tax break and the states try to tax it all up for their citizens. I think it's an important matter that we ought to be talking to the Treasury about.

GIBBONS. The problem is not new, we've run into it and, as I say, with most of the other former Commonwealth countries we have worked that out, and even with the U.K. itself. I'm puzzled that it's taken so long to negotiate a treaty. We'll get the tax stuff in, sorry we didn't bring some of those along with us on this trip, maybe that's something we need to add in a future trip, an expert in foreign taxation. I'll ask our staff to take immediate note of that and let's get on with that problem when we get back, see what we can do to help work it out.

I was going to ask you that I read in the newspaper the other day that Pepsi Cola had come into your country and that they were going to export orange juice. Now we squeeze a few oranges down in my country every now and then. Can anyone enligthen me as to what kind of orange juice squeezing operation this is going to be?

KRISHAN MEHTA. I was for 32 years with Coca Cola. I think it should be understood in the correct perspective that India's agriculture economy needs a boost on the technical side. That's my view. I have also held the view that there should be a joint commission on agriculture between India and the U.S. because that is one area where the U.S. can really help India on the technical side. Our yields, our productivity, our quality and all that can be substantially improved, particularly in fruits and vegetables.

Pepsi Cola put out a proposal that they would help in growing these fruits in larger quantities, processing them and then exporting them. And although the U.S. is a large manufacturer of citrus concentrates and citrus products, this year particularly and last year there has been a tremendous shortage and U.S. imports a lot of concentrate from Brazil and many other countries. So it could be a market although that would be very far, I would imagine there would be other markets. So, there was some value in what they were proposing. The problem in India of course is that they don't like linked proposals because they wanted to import a certain amount of concentrate, Pepsi concentrate, against the export of these agriculture products. This was tried by many people before. It has not succeeded because the government's view is that it is not fair to the other exporters of those products who are not allowed to accept certain items which go into that imported item. So therefore it's not fair toother exporters and this is why it was rejected. For your information one of the committees that consider such proposals, the highest administrative committee has rejected the proposal of Pepsi as far as we know and what we've read in the papers. But I think that this is a point which I would like to make on this congressional level that there would be a great deal of benefit to be achived if there is some kind of close cooperation betweer India and the U.S. on the agriculture or agro-economic, agro-industrial front.

GIBBONS. You don't have much citrus production now, is that right?

MEHTA. Our citrus production is very small, there are no citrus concentrate plants in India and there is no citrus industry as such although you do have citrus production but not to talk about.

XX. A gentleman at this table has complaints about the lack of national treatment in bank taxes. He alleges that his taxes representing an American bank, are at a much higher level than the Indian banks pay, the income tax . . .

XX. True of all foreign banks.

XX. And it becomes more important as the country opens up and wants more private investment. It will be difficult if the banks are not allowed to recirculate some of their profits in the form of loans etc. So he thinks that's an important point that we ought to make with the commissioner of finance.

XX. The banks are branches of American companies and they don't distribute dividends in this country. That is why there is a separate tax on the branch of any particular company. If they were not branches and registered Indian companies then it would have been the same tax. I'm sure Pradeep would agree with that.

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PRADEEP SAXENA. The point is that since there is no difference between foreign banks and Indian banks in terms of what they are required to do, in terms of what support they have to offer to the priority sector and all the statutory investments in government securities, there is no difference between Indian banks and foreign banks. But when it comes to tax then the average rate used to work out to up to about 80 percent. Only this year it's gone down to about 66 odd. Whereas the Indian banks pay tax at an average of about, now it's come down to about 50 odd percent. So, it's not a question so much of branch, the banks are in any case exempted from FERA banks do not fall under the purview of FERA.

CHANDOK. No to contradict Pradeep, I think that the Indian banks are required to a little more than foreign banks in the priority sectors. They are working at a disadvantage where the business aspect is concerned.

SINGHANIA. What Mr. Chandok is referring to, sir, if I may clarify there are certain social obligations on the Indian banks, that means they have to lend to certain priority sectors, the rural areas, the underdeveloped areas and so on and so forth, and of which you'd be surprised to hear that nearly 40 percent of the total advances are deployed in that and 30 percent of the total loan forwarded are written off every year, and that privilege is not available, I mean the foreign banks do no want to respond to that privilege. And therefore I think there is, thats why this distinction but the point is that if there is a distortion then certainly we can take up with the government for all I know.

SAXENA. The foreign banks are, because being branches, what Mr. Mehta was saying, are not required to bring in any capital. There is no capital which American Express has invested in India, or Citibank or Bank of America, or Grindlays or anybody, so therefore if there is no capital invested, regardless of your rate of tax, whatever you make is good because you're already on the floor so you can't really fall from the bed. So that is the argument which you gentlemen will hear when this point is brought across.

GIBBONS. May I ask my friend over here, normally when we go to countries all that we insist upon is that Ameican banks be granted national treatment, in other words that they be treated the same as the domestic banks. Would American banks be willing to be treated the same as domestic banks?

SEXANA. Most bank branches are opened on the basis of reciprocity. Government of India about reciprocity. There are 11 branches of Indian banks in the United States. Given the banking laws in the United States—American Express is not a good case—but Citibank can really not go nationwide. Of course it has. But whereas an Inidan bank can go and open any part of the Untied States. So when American Express, Citibank, Bank of America or Grindlays say that they want another branch, they are told, no, you cannot have another branch. So the banks say that since we cannot have another bank don't expect us to lend to the farmer 500 miles up country because we can't really see what the end use of the fund is. So it is one of those chickens and egg type things. As far as the United States Government is concerned, an Indian bank can go and open a branch anywhere in the United States, at any point of time.

GIBBONS. We understand that. That is, the branch banking matter, as you so well know, is up for serious consideration in the Congress right now. We are having quite an intermural fight over that right now between the state banks and state limitations, regional banks and the big banks like Citibank. I don't know how that is going to come out. I'm for my banking friends wherever they are.

Normally when we come to a country we always ask to be treated the same as we treat you in our country. I can see that there is a difference here.

ADITYA PURI (Citibank). As far as the foreign banks are concerned, we do get national banking status. Yes, we do have restrictions, but that's because of the preferred status we do have. We are one of the few companies, as he said, which can still have a branch in India. Now, you can't have your cake and eat it too. So if you want to nationalize, I am not sure we want to go into banking all over the country. I think we are happy with the concessions granted to us. If we want the rest, then we have got to get in with the rest, dilute, bring in capital. And I am not sure we want to do that. We make a reasonable buck here and I think we are happy. We are O.K.

SINGHANIA. Thank you gentlemen. I wish we had more time, but I can see that the alarm clock is being raised. Thank you, sir, for a very, very useful discussion indeed.

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APPENDIX P: STATEMENT BY THE HONORABLE SIDDHI SAVETSILA, FOREIGN MINISTER OF THAILAND, AUGUST 19, 1985

Opening Statement by H.E. ACM. Siddhi Savetsila, Foreign Minister of Thailand, at Seminar on Thai-U.S. Trade and Economics Relations, August 19, 1985, at the Ministry of Foreign Affairs

Congressman Gibbons, Distinguished Members of the U.S. Congressional Delegation, Ladies and Gentlemen: It is indeed an honour and pleasure for me to represent the people and the Government of Thailand in extending our warmest and sincere welcome to you and the distinguished members and staff of the U.S. Congressional Delegation. We should also like to thank you for your decision, unanimous I presume, to choose Bangkok as one of the stops in your extensive fact-finding mission to Asia and the Pacific.

I hope you are pleased with the programme and various agreements. I also earnestly hope that your visit would be worthy of your time and effort and that when you return to your country, you will be more acquainted with our thinking and activities, more equipped with factual information and data that would enable you to take further constructive and mutually beneficial role in Washington D.C.

You may have noticed that we have here a very large Thai delegation headed by one of the most able and young leaders of Thailand, Dr. Chirayu Isarangkun Na Ayuthya, Deputy Minister of Industry. Our delegation comprises representatives from the government, the Houses of Parliament and the private sector. Each is prominent and distinguished in his or her own right and in field of activity and specialization. We have with us: General Kriangsak Chommanan, former Prime Minister, and Member of the House of Representatives; Members of the State, Khum Chumsai Hasdin and Khun Charnvut Bhodhiratnungkoon; Khun Supatra Masdit, one of the most well known and outspoken lady MPs; M.L. Seri Pramoj, Member of the House of Representatives; Khun Yukti Na Thalang, Vice President of the Board of Trade of Thailand; Khun Anand Panyarachun, former Thai Ambassador to Washington D.C. and now Vice President of the Association of Thai Industries; Khun Pongsak Assakul, Vice President of the Thai Textile Manufacturing Association; and many others whom you can see in the list and will have the opportunity to make acquaintance with. We also have here the Permanent Secretary for Foreign Affairs and senior officials from the economic ministries.

We, in coordination with the United States Embassy, have arranged for a rather busy and tight programme. You, the distinguished members and the staff of the U.S. Congressional Delegation will be meeting the joint delegation of ASEAN countries late this morning. The private sector associations will also jointly host a luncheon in your honour. You will be making a courtesy call on H.E. the Prime Minister and members of the Cabinet. I will see all of you this afternoon and at dinner.

We, however, do not intend to overwhelm you with the number of our delegation and breath-taking programme. We simply feel that since you have honoured us with your presence, we must reciprocate to the full. We would also like to show how deeply concerned we are and how conscious we are of the common task and responsibility. We are not unaware of the difficulties confronting your economy and your domestic political scene. We know that you are cognizant of the plight of Thailand as a developing country, a democratic one with a free enterprise economy. We are also a front line state, shouldering willingly and with good moral conscience the world problems of narcotics and refugees. But in spite of the heavy burden we pledge our efforts to work closely with you, the United States, in constructive manner and for positive outcome.

This morning we are together participating in a Seminar. We will therefore be expressing views, giving facts and making clarifications so that we will understand each other and looking forward to a constructive result. Our attitude to this seminar and to your visit as a whole is a positive and conciliatory one. Our line of approach is the Buddhist Middle Path, void of extremes.

So, do set aside, if I may advise, press headlines. May I also remind you that you are in a democratic country with independent press and freedom of speech. Your

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visit is very significant and has received extensive public notice and attention, which is a healthy thing. We on both sides are answerable to the public and their well being. Our joint endeavour today and in the days and months to come is therefore important to our people.

I wish this seminar every success in bringing about a meaningful understanding between our two countries. I await an encouraging report and look forward to a fruitful exchange of views with you later this afternoon. I also have a speech for you at dinner so that your working visit will be true in its name and worthy of the tax payers' money—working while dining.

I now have to rush back to the Council of Economic Ministers Meeting where we will be discussing your visit and preparing our meeting with you. May I now, therefore, declare open the Seminar on Thai-U.S. Trade and Economic Relations, and pass the floor to Deputy Minister Chirayu.

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APPENDIX Q: AIDE-MEMOIRE ON THAI-UNITED STATES TRADE AND ECONOMIC RELATIONS, AUGUST 19, 1985

Thailand is a market-oriented economy that is fully integrated to the world economic system. We share the US conviction that an open world trade system plays a crucial role in advancing global economic interests and world prosperity and should therefore be maintained and preserved. In this regard, Thailand, along with her ASEAN partners have repeatedly voiced deep concern over the rising tide of protectionism which has eroded the open world trade system and welcome an early preparation for the launching of the New Round of Multilateral Trade Negotiations. Thailand fears that the recent surge of protectionism, from the US as well as other countries will undermine the common efforts to liberalize world trade and reverse the momentum that had recently been gained for the launching of the New Round.

Thailand wishes to also express our distress and concern that this rise in protectionism in certain sectors in the United States if not now strongly resisted, will seriously undermine the Thai economy and be counter-productive to the bilateral economic relations between Thailand and the United States. Thailand wishes to further point out that relations between Thailand and the United States are deep-rooted and multi-dimensional and that economic relations form an integral part of this totality. A set-back on the economic front would deal a serious blow not only to the political stability and security of this nation but would, because Thailand is a front-line state, also undermine the stability of this region, at the detriment of both our countries' long-term security interests.

1. Thai-United States trade

Two-way trade between Thailand and the United States is a major component of bilateral economic relations. Trade has been growing satisfactorily with Thai imports from the US rising steadily to reach US $1.39 billion in 1984 and while exports had grown slowly between 1980–1983 (5 per cent on an annual basis), they have recovered in 1984 to reach US $1.28 billion.

It should be pointed out while the United States is an important export market and source of imports for Thailand, the opposite is not true. Thai trade with the US is negligible, in relative terms, from the US point of view. In 1984, United States exports to Thailand was only 0.5 per cent of total US exports while Thai products sold to the US account for 0.4 per cent of total US imports. These figures suggest that the solution to the United State's trade deficit cannot be found with Thailand. It will instead reverse and hinder the steady expansion of trade between our two countries that has been so far achieved as well as further trade development in an open environment.

2. Textile

1. Thailand is seriously concerned over the proposed Textile and Apparel Trade Enforcement Act of 1985 now pending before the US Congress.

2. The ultimate purpose of this bill is to roll back imports of textile and apparel into the US by a substantial percentage so as to allow the US textile and apparel industries to regain profits and to arrest the rising trend of unemployment in this industrial sector.

3. Thailand believes that the assumptions behind the rationale for this bill are false.

4. Far from being overwhelmed by imports, investments and profits in this sector in the US reached a record level in 1984, representing a 20 percent increase over 1983. But for increasing use of labour saving machinery, employment would have also shown similar increases. While 1984 saw also an increase in imports, partly reflecting increased domestic expenditure and partly because of the strength of the US currency, it has in no way substituted for domestic products, which continue to account for the greater share of the US market.

5. At the same time, the practical result of the bill would impose a disproportionately large burden only on small and medium suppliers which together would not significantly contribute to the reduction in textiles imports into the US. The dispro-

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portionate burden on some countries in comparison with their market shares is illustrated in the following table:

Country	Percentage estimated cutback	Market share in 1984
Thailand	64.4	1.84
Indonesia	80.7	1.54
Hong Kong	17.0	16.24
China	59.1	7.54
Pakistan	41.2	1.19
India	22.2	2.66
Korea	35.1	12.71
Singapore	2.6	2.04
Philippines	21.2	2.55
EC countries		10.90
Japan	19.9	6.86

6. Equally false is the claim that total imports should not exceed the level of growth of 6 percent provided for the Multifibre Arrangement. This claim ignores the fact that the 6 percent rate of growth is required only as a minimum in the case of products proven to have caused market disruption; the other product continue to be subjected to the market mechanism.

7. In the multilateral context, the bill contradicts the most important provision of the GATT since it discriminates among supplying countries by its exclusion of the member countries of the EEC, Canada and Mexico. At the same time, it ignores and negates the current US commitments to the Multifibre Arrangement and calls into question the worth of all commitments by a major economic power.

8. Furthermore, the bill would induce other major importing developed countries to follow suit to protect their own markets from textile and apparel diverted for the US market.

9. On a bilateral basis, the bill would violate bilateral agreements that have been entered into by the US with all exporting developing countries for a mutually agreed procedure and solution of market disruption. In the case of Thailand, exports of Thai textile and apparel to the US has been subjected to control and limitations since 1971 and the coverage has widened from one item to 26 items currently.

10. The immediate effect of the passage of this bill on Thailand would be a drastic cut in income, foreign exchange earnings and employment of well over 600,000 persons or a quarter of the total industrial work force. Total exports by the US would be reduced by 15 per cent, thus further widening the trade dificit with the US.

11. The loss of income and capital generated by this drastic cut would invariably result in the reduction of imports into Thailand of the raw materials for this sector including cotton from the US. Imports for other industries and consumption would also be curtailed.

12. Thailand, therefore, urges the US Congress to reject this bill and to consider the alternative arrangement based on a multilateral approach, which has always had the support of and been championed by the US. Negotiation on the future of the Multifibre Arrangement has already begun and, with the exception of a few countries, there was a general agreement that although the Multifibre Arrangement has fallen short of its objective of ensuring the orderly and equitable development of trade in textiles while avoiding disruptive effects in individual markets and production in both importing and exporting countries, the arrangement has been useful.

13. Thailand fully support the extension of the Multifibre Arrangement and will work for a multilateral solution to the serious difficulties facing both the developing and the developed countries.

3. Canned tuna

The recent indication that there is a move to substantially increase a tariff on imported canned tuna, whether in water or in brine, has caused much concern in Thailand. The move is one of several attempts which have been made in various forms to restrict or even eliminate the importation of canned tuna from Thailand and other countries. Last year, proposals were made to increase the import tariff to the rate of 35 percent from the current 6 percent (imported within the quantitative

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limit) and 12.5 percent (for those imported in excess of the limit). These proposals came after the decision of the International Trade Commission that imports of canned tuna did not cause injury to the US canned tuna industry.

The fact that the proposal failed to win Congressional approval is a clear testimony of the US commitment to encourage a healthy international trading environment and development and has been welcomed by all exporting countries in the Third World. The renewed effort will certainly not be in the interest of the US and the trading community at large.

4. CVD investigations against Thai manufactured exports

Thailand's economic growth in the past years owed much to the strength of the agricultural sector and diversified industrial development. The fast expansion in trade has played an important role in stimulating the economy and the means to finance imports of capital and consumption goods. Uncertainty in trade unavoidably disrupts trade and injures incomes and employment. Thailand has recently experienced a series of allegations and investigations on our exports to the U.S. Two of our important exports, textiles and canned tuna, are examples of such cases. Investigation is now pending on our export of circular welded carbon steel pipes and tubes which accounted for less than 0.5 percent of total U.S. import in 1984. The Thai industries concerned feel that Thailand should not be made to bear an undue burden of U.S. domestic monetary and fiscal adjustment.

5. Footwear

The recent recommendation of the International Trade Commission to the Administration to impose a five-year global quota on imports of non-rubber shoes into the U.S., if approved, will seriously affect Thailand and many small exporting countries with less than 1% of total U.S. imports. While recognizing the ITC's determination to protect domestic industries and the concern of the U.S. Congress over the national economy, the proposed remedial action may not be in the long term interest of the U.S., generate misallocation of resources and price distortions in the U.S. market and effectively discourage the growth of independent producers in small exporting countries.

6. Bonus incentive commodity export programmes

Thailand, which relies heavily on agricultural exports as a main source of foreign exchange earnings, is gravely concerned over the U.S. commodity subsidy programmes such as the Bonus Incentive Commodity Export Programmes (BICEPS). We realize the BICEPS is aimed at regaining U.S. markets lose to EC subsidized exports. We are nonetheless concerned that the original objective may be overlooked and the scheme extended to affect other markets and some of our key exports as well as the possibility that the Programme may become a permanent feature similar to the present disposal of grain stock through international bidding by Commodity Credit Corporation (CCC).

Thailand therefore wishes to seek U.S. assurances that the scheme will not apply beyond those U.S. markets which have been lost to the EC subsidized exports. We would wish to be informed of the direction of the application of the said Programmes and request that prior consultation be held whenever Thailand's market may be threatened or affected.

Furthermore, Thailand is consistently concerned over the adverse impact on world trade in agricultural products of various U.S. commodity export promotion programmes either in accordance with the "Public Law 480", the "International Development and Food Assistance Act of 1975" or the "Payment-In-Kind". We view these agricultural export subsidy policies as unfair trade practices in the same manner that the U.S. has imposed countervailing duties on our manufactured products. We wish to see this imbalance redressed during the new round of multilateral trade negotiations.

7. Sugar

Thailand's sugar industry is heavily dependent on the world market. About 1.4–2.7 million tons or nearly 70 percent of Thai sugar production are exported each year. Unfortunately, world sugar prices have been declining steadily and currently remains at a very low level. Thai cane farmers numbering about 200,000 families have been compelled to sell their canes at prices which are greatly below the cost of production for the past 4 years. Barring natural calamities or other acts of God which bring about high world prices, and with no outside help, the sugar industry in Thailand is certain to face immediate diaster.

The present situation has been aggravated by the U.S. imposition of quotas for sugar in accordance with the Proclamation of the Import Quota Programme since

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May 1982. Thailand's quota was reduced from a peak of 292,000 short tons in 1982 to 39,200 short tons in 1983 and 42,588 short tons in 1984. Thailand fails to understand the rationale behind such a sharp reduction and has continuously requested bigger quota allocation. But the response from the U.S. has been that to increase Thailand's quota would upset the formula used for global sugar allocation.

This attitude of finality taken by the U.S. toward a friend like Thailand is indeed discouraging. Thailand, therefore, would like to request the U.S. once again to seriously consider the possibility of reviewing the formulation used and introducing a more equitable and realistic base period for golbal quota allocations. Consequently, the quota allocated to Thailand will better reflect both its existing potential and its past performances prior to the May 1982 Proclamation. By so doing, the livelihood of approximately 200,000 Thai families of cane growers may be uplifted from their present dire state.

8. GSP

Thailand would like to express several reservations regarding the renewal of the U.S. GSP scheme. First, the new scheme is more restrictive than the previous one, for example, a total exclusion of leather products. Second, the GSP now demands reciprocity from beneficiaries which is unprecedented and contrary to the fundamental principle of the GSP which is designed as an instrument to assist industrialization efforts by developing countries. Certain reciprocity conditions such as the requirement for the protection of worker rights is highly questionable. Third, the review process currently being undertaken have imposed greater administrative burden in requiring more information in the processing of GSP requests. This would increase administrative costs and reduce the rate of GSP utilization.

Thailand therefore requests that the new GSP scheme be administered in a flexible manner consistent with the developmental goals and objectives of beneficiary countries.

THE ROYAL GOVERNMENT OF THAILAND, 19th August B.E. 2528 (1985).

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APPENDIX R: STATEMENT OF THAT FOOD PROCESSOR'S ASSOCIATION AND THE THAI TRADE UNION CONGRESS, BANGKOK, THAILAND

THAI FOOD PROCESSOR'S ASSOCIATION,
August 13, 1985.

To: Chairman Sam Gibbons and Delegation of The Sub Committee on Trade, House Ways and Means Committee.
From: Thai Food Processor's Association.

On behalf of the Thai Food Processors Association, we urge you to oppose H.R. 1262. This bill, introduced by Congressman Anderson of California, would impose a 35 percent tariff on all imports of tuna canned in water.

Passage of H.R. 1262 would set a dangerous and unnecessary trade policy precedent. It would ignore a recent International Trade Commission (ITC) decision and an overwhelming rejection of this tariff by the U.S. Senate less than one year ago. Passage of H.R. 1262 would also have a significant budget impact on American consumers, costing them in excess of 800 million dollars over a five-year period.

Effect on trade policy

H.R. 1262 seeks a unilateral tariff imposition against imports of canned tuna in water. If such a tariff were imposed, GATT requires that other tariff concessions be given to affected countries. If those concessions are not accepted, retaliatory action may legally be taken against U.S. exports. Trade in U.S. farm products or other articles, therefore, could be substantially disrupted.

Passage of H.R. 1262 would ignore ITC and U.S. Senate decisions

On July 25, 1984, the ITC soundly rejected a U.S. tuna industry petition to impose a 35 percent tariff on all imports of canned tuna in water. The decision followed an exhaustive five-month investigation.

The major sponsor of the petition was Star-kist foods, which already holds a dominant 40 percent share of the U.S. retail tuna market. Significantly, the next three leading U.S. market holders opposed the tariff petition. Star-kist is undoubtedly a major force behind H.R. 1262.

The ITC denied the petition by a four to one vote. Even the one dissenting vote rejected the imposition of the tariff, recommending instead that trade adjustment assistance be made available to displaced boat operators and cannery workers. The ITC therefore unanimously denied the tariff sought by Star-kist and certain segments of the U.S. tuna industry.

The ITC found that the economic difficulties of the U.S. industry were caused not by imports but by U.S. tuna fleet oversexpansion and the shift of tuna fishing grounds from the Eastern to the Western Pacific, among other things.

On September 18, 1984, the U.S. Senate, by a vote of 77 to 21, overwhelmingly rejected an amendment to a tariff bill, sponsored by Senators Wilson and Stevens, to impose the 35 percent tariff which the ITC had rejected less than two months before.

Cost to the American consumer

The Federal Trade Commission estimates that the imposition of the tariff would cost the American consumers approximately 800 million dollars over the next five years. The price of the protected tuna would immediately rise over 20 percent.

Other harmful effect

1. The imposition of such a tariff, especially following a recent IFC decision and Senate vote, is plainly not in the national interest. Tariff walls of this type should not be legislated quickly and in direct contravention of the ITC and legislative processes.

2. Star-kist, the major advocate for the bill, already dominates the U.S. tuna retail market, holding over a 40 percent share. A restrictive tariff would increase that dominant position over other U.S. processors which have foreign sources of supply.

3. If the amendment passes, the U.S. importers of canned tuna would be devastated, as the tariff would almost certainly block all import of canned tuna in water.

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Effect on Thailand's tuna industry

1. At this period, more than 60% of exported Thai canned tuna is for U.S. market which is accounted for $150m. It includes other related items such as canned tuna for cat, this value will be increased to $200m. The effect of H.R. 1262 will cause big harmful to Thia Export.

2. Tuna factories will have to reduce production capacity for about 60%. That will cause a lot of non-productive capacity for this industry in Thailand. Further, many factories with poor financial support will have to close down which will cause big harmful effect on the industry.

3. At least 4800 labor, from total of over 8,000 will be laid off. This also will cause sizeable related impact to over 20,000 living families.

4. Plant close-down will cause huge effect on financial and investment condition of Thailand. All investment on plants which will be closed then turn to be non-productive investment.

5. Tuna of 30,000 tons caught in Thailand by 200 fishing boats will be in a turmoil. Average 35 fishermen who work on the boats, which needed investment around $300,000 each, will face unemployment. Moreover, related business such as fish transportation, can-making industry, and fish distribution will also be collapsed.

We urge you to oppose H.R. 1262.

CHATCHAI BOONUARAT, *President.*
DUMRI KONUNTAKIET,
Vice-President and Chairman of Thai Tuna Group.

THAI TRADE UNION CONGRESS (TTUC),
July 26, 1985.

An Open Letter to the Government of the United States of America:

Thailand and the United States has been enjoying a friendly relation for a long period. Historically, the contact between the Thais and the Americans has been lasted for many centuries. Till date, the relations between the two countries in term of economic, politic social and cultural aspects have much closer than any other countries in the world.

Thailand, as a developing country, substantially depends upon the supports and assistances from other developed countries. The United States of America has been giving much assistances to Thailand more than others. We sincerely appreciate such firm friendship between the two.

Recently, we have been very much alert by the move of the Congress to enact the Textile and Apparel Trade Enforcement Act 1985 to restrain the volume of imports from the Far East and Southeast Asian countries including Thailand.

If such Act is implemented, it would effect over 200,000 workers employed in 230 textile factories and 600 garment factories all over the country.

The economical crisis within the country at present and the declining value of the local currency directly resulted in the collapse of a number of local businesses and millions of unemployed. Those problems are still unresolved while the restraining of the import of our textile would further worsening the situation of the working people in the country.

TTUC has been convinced by the serious impacts on the Thai workers involved by the Act. We, therefore, would like to appeal to the government of the United States to assist us in this regard. We wish to evoke your sympathy toward the millions of Thai workers who are eventually confronting with uncertainty of their future employment. We depend on your powerful support and assistance in sustaining peace and sovereignty among the Thai people.

TTUC sincerely hopes that you will adhere to our opinions and shall consider to assist a small developing country and her peoples. We have a firm belief the great imperial state like the U.S. is capable of handling our request to a proper solution.

TTUC also believes in the sympathy of the U.S. to the cause of the problems confronting Thailand at the moment, and hope that the U.S. Government will adhere to the grievances of the Thai workers. We would be eagerly awaiting your soonest solution to the problem.

With our best wishes.

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APPENDIX S: AIDE-MEMOIRE FROM THE NATIONAL FEDERATION OF THAI TEXTILE INDUSTRIES

Aide-Memoire on the Proposed Legislation in U.S. Congress: The Textile and Apparel Trade Enforcement Act of 1985

While we appreciate the serious problem the U.S. has because of its large deficit in international trade, mainly with Japan and other developed countries, we are concerned that afforts to deal with this problem are not being directed at the real sources of the problem, but will result in broad protectionist measures which would adversely affect countries not contributing to these difficulties, including Thailand.

In particular, we are concerned that measures being contemplated by the U.S. Congress and the U.S. Government may further restrict some imports from Thailand when in fact those imports are already restricted or unrelated to the underlying trade deficit problems or problems experienced by specific industries.

1. The Textile and Apparel Trade Enforcement Act of 1985 pending in Congress would force a reduction in the already modest levels of Thai exports of these products to the U.S., despite the fact that the level of Thai exports is too small to have any significant impact on the U.S. industry. Forcing a reduction in Thai exports when the source of any problem is the major suppliers such as the 'Big-Fives' (constitute more than 65 percent of total imports) would ignore the facts of the matter and would be unfair.

The following charts summarize the twenty-two largest exporters of textiles to the U.S. The charts includes 1983 and 1984 figures, both in million U.S. dollars and million square yards equivalent:

Country	1984 US dollars (millions)	1984 (percent)	1983 US dollars (millions)	1983 (percent)
Taiwan	$2,440.810	16.61	$1,984.123	18.12
Hong Kong	2,390.588	16.24	2,051.437	18.74
Korea	1,872.130	12.71	1,514.561	13.83
China	1,110.340	7.54	923.202	8.43
Japan	1,009.498	6.86	810.960	7.41
Italy	736.014	5.00	374.216	3.42
India	391.997	2.66	291.784	2.67
Philippines	375.170	2.55	284.349	2.60
Singapore	300.674	2.04	200.589	1.83
United Kingdom	270.244	1.84	174.966	1.60
Mexico	264.739	1.80	178.688	1.63
Thailand	263.793	1.89	151.796	1.38
France	243.290	1.65	159.388	1.46
Indonesia	226.224	1.54	86.680	.79
Sri Lanka	205.173	1.40	126.508	1.16
Brazil	182.603	1.24	87.325	.80
Dominican Republic	176.446	1.20	139.452	1.27
Germany	174.070	1.18	104.459	.80
Pakistan	176.232	1.19	118.719	.95
Macao	174.403	1.19	129.943	1.19
Canada	167.307	1.14	116.521	1.06
Malaysia	156.833	1.06	87.400	.79
Total of 22	13,469.511	91.52	9,975.548	91.11
Total EC	1,604.152	10.90	919.985	8.40
Total ASEAN	1,322.749	8.99	810.817	7.41
Total CBI	428.749	2.91	332.000	3.03
Total overall	14,718.072	100.00	10,948.404	100.00

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Country	1984 (million SYE)	1984 (percent)	1983 (million SYE)	1983 (percent)
Taiwan	$1,578.113	15.55	$1,402.139	18.20
Hong Kong	1,048.391	10.33	964.711	12.52
Korea	1,165.354	11.48	1,008.842	13.09
China	990.161	9.75	794.020	10.30
Japan	737.406	7.26	669.044	8.68
Italy	506.458	4.99	276.977	3.59
India	253.109	2.49	173.424	2.25
Philippines	241.661	2.38	191.330	2.48
Singapore	139.996	1.38	103.108	1.34
United Kingdom	139.889	1.38	90.279	1.17
Mexico	277.302	2.72	189.117	2.45
Thailand	211.326	2.08	121.775	1.58
France	103.253	1.01	67.439	.87
Indonesia	268.042	2.64	84.155	1.09
Sri Lanka	115.692	1.14	67.413	.84
Brazil	194.982	1.92	132.886	1.72
Dominican Republic	101.979	1.00	82.469	1.07
Germany	288.646	2.84	165.880	2.15
Pakistan	304.736	3.00	218.126	2.83
Macao	62.663	.62	51.085	.66
Canada	299.611	2.95	161.897	2.10
Malaysia	93.115	.92	49.065	.64
Total 22	9,214.700	90.77	7,114.246	92.32
Total EC	1,131.541	11.15	662.856	8.60
Total ASEAN	954.147	9.40	549.434	7.13
Total CBI	256.861	2.53	200.024	2.60
Total overall	10,151.446	100.00	7,706.014	100.00

2. This Bill makes little sense in terms of trade policy as it penalizes Thailand for an import problem which it is not causing. Minor suppliers such as Thailand are forced into reductions below 1984 levels (64.4 percent), much greater than principal suppliers (e.g. Taiwan 48.0, Hong Kong 17.0, Korea 35.1, China 59.1). Furthermore, there is no apparent rationale for providing growth to some countries (Mexico, Colombia, Peru, Chile, and even South Africa). While Thailand is forced into a reduction, countries which are primarily responsible for the adverse U.S. balance of trade (e.g. Korea and Japan) receive much more favorable treatment than Thailand. In short, whether the logic of the proposal is to protect U.S. industry or to address severe balance of trade problems, the arbitrary nature of the proposed legislation imposes a disproportionate burden on Thailand, a relatively minor player in the textile trade and in the overall U.S. balance of trade picture. To summarize, such a discriminatory and arbitrary approach is not well understood by us and it will definitely have a severe adverse impact on Thailand's largest export manufacturing sector.

Thailand wonders whether its emerging textile and apparel export industries will be allowed a place in the U.S. market or whether they will be restricted because other countries which began exporting these products before Thailand have disrupted the market. The appropriate U.S. response is to deal with the imports that in fact are causing the problems (i.e. the major suppliers) not to restrict the newcomers and small suppliers.

Additional consideration should be made of the role of individual countries in contributing to the U.S. balance of trade deficit. Restrictions of these exports may impair Thai imports from the U.S., thereby failing to resolve the underlying trade deficit problem. For example, Thailand imports about 5 percent of U.S. total cotton exports, mainly from Texas and California, which is equivalent to about 50 percent of our cotton imports.

3. The Jenkins Bill is inconsistent with the MFA in three important respects. First, Article III, section 1 provides: "Unless they are justified under the provisions of the GATT (Including its Annexes and Protocols) no new restrictions on trade in textile products shall be introduced by participating countries nor shall existing restrictions be intensified, unless such action is justified under the provisions of this Article."

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Section 1 refers to the Article III provisions authorizing the use of "calls" to deal with cases of market disruption. Article III does not contemplate the imposition of a global system of restrictive quotas. Moreover, Article III and the call mechanisms are based on bilateral consultations, not the unilateral imposition of quotas. The primary purpose of the MFA was to reduce the use of unilateral trade restrictions.

Second, Article VI, Section 1 provides in part that: "Recognizing the obligations of the participating countries to pay special attention to the needs of the developing countries, it shall be considered appropriate and consistent with equity obligations for those importing countries which apply restictions under this Arrangement affecting the trade of developing countries to provide more favorable terms with regard to such restrictions, including elements such as base level and growth rates, than for other countries."

While this provision urges preferential treatment for developing countries, the Jenkins Bill exempts the EC and Canada from its coverage. The Bill thus gives preferences to precisely the countries—the developed countries—who not need the preferences.

Third, Article XII specifically limits the coverage of the MFA to cotton, wool, and man-made fibers. The Jenkins Bill seeks to impose quotas on imports of silk, ramie, and linen. This extension is a clear violation of an express provision of the MFA.

The Jenkins Bill also violates bilateral agreements in effect under the MFA. The alteration of base levels, changes in growth provisions, and unilateral action by the U.S. in contravention of the terms of existing bilaterals constitute violations of negotiated bilateral commitments entered into by the U.S.

In addition to these particular points, we would like to stress the overriding spirit of the MFA: that restrictions on trade in textiles should be minimized; and where restrictions are unavoidable, they should be the result of mutually agreeable bilateral negotiations. In this connection, we would like to stress that Thailand has cooperated with the U.S. Government in calls under the present bilateral agreement. Thailand has honored its part of the MFA commitment, and asks only that the United States not do the same.

4. The single most important prinicple in the GATT is the notion of "most-favored-nation" status. This notion—that all countries should be treated similarly in international trade—permeates the entire GATT, and appears specifically in Article XIII dealing with quantitative restraints. Section 1 of Article XIII provides that: "No prohibition or restriction shall be applied to any contracting party on the importation of any product of the territory of any other contracting party or on the exportation of any product destined for the territory of any other contracting party, unless the importation of the like product of all third countries or the exportation of the like product of all third countries is similarly prohibited or restricted."

To the extent the Jenkins Bill applies to some countries but not to all countries, it will violate this provision of the GATT.

The following chart reveals the widely different effects the Jenkins Bill will have on various suppliers:

Textile limits in 1985 compared to 1984 general imports

Country	*Percent change*
Argentina	+20.1
Australia	+14.5
Austria	+14.7
Barbados	+42.3
Belize	+15.0
Bangladesh	+2.8
Brazil	−80.5
Bulgaria	+15.0
Costa Rico	+10.6
Chile	+230.5
China	−59.1
Taiwan	−48.0
Colombia	+8.8
Czechoslovakia	+15.0
Dominican Republic	+9.3
Ecuador	+312.5
Egypt	+14.0
French West Indies	+257.0
Finland	+15.0
German Republic, Democratic	+82.5

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Country	Percent change
Greece	0
Guatemala	+15.
Guyana	+94.4
Haiti	+11.7
Hong Kong	−17.0
Honduras	+9 1
Hungary	+10.2
Iceland	+13.2
India	−22.2
Indonesia	−80.7
Iran	+1.0
Israel	+5.0
Jamaica	+14.1
Japan	−19.9
Korea	−35.1
Leeward/Winward Islands	+10.7
Macao	+5.8
Malaysia	+6.5
Male	+15.0
Mauritius	+3.9
Mexico	+14.0
New Zealand	+14.4
Nepal	+1.0
Nicaragua	Infinite
Parkistan	−41.2
Panama	+1.0
Peru	+9.9
The Philippines	−21.2
Poland	+42.8
Portugal	+12.9
Romania	+8.8
South Africa	+14.0
Salvador	+17.1
Singapore	−2.6
South Asia	+1.0
Spain	+14.8
Sri Lanka	+5.3
Switzerland	+21.7
Trust Pac Island	+1.0
Thailand	−64.4
Turkey	+7.9
Uraguay	+12.8
Yugoslavia	+9.2

5. The Bill may not be necessary because the United States already has in place a comprehensive system of import quotas. Approximately 80 percent of apparel imports into the United States are already under quotas. This existing system is consistent with the MFA, and should form the basis for any effort by the United States to control imports of textiles and apparel. Moreover, the percentage of total imports under quotas has been increasing over the past few years.

In addition to these quotas, the Administration has taken a number of actions to reduce the level of textile imports into the United States, including:

1. new country of origin regulations
2. new phased entry regulations; and
3. stricter standards for enforcing calls.

The figures on growth of total textiles imports are somewhat misleading. The fact that total textile imports are growing is not a sign that the present system of bilateral textile agreements under the MFA is not working. Much of this growth is non-MFA fibers, such as silk, ramie, and linen. These fibers are not produced to any substantial degree in the United States. These imports therefore do not compete with the domestic products. Further, we feel that remedy for such problem could be discussed in the coming negotiations of the MFA renewal within December of this year.

Moreover, much of the growth in imports from the Pacific Rim countries is merely the growth permitted under the MFA, but which had not been taken advantage of for several years. The fact that some countries did not take advantage of

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their permitted levels of growth in the past should not be a basis for punishing those countries.

The United States has an elaborate system of trade laws. If textile imports are unfairly traded (with unfairly low prices due either to government subsidization or companies selling below cost), countervailing duties and antidumping duties may be imposed to offset the price advantage. The domestic industry tried to stop textiles imports with a series of countervailing duty cases against small suppliers last fall, of which Thailand is one of them. Further, we would like to stress the following points:

(a) In general, the domestic industry was unsuccessful in proving substantial levels of subsidization; that is why it is now seeking legislative protection.

(b) In particular, the ASEAN countries had extremely low levels of subsidization:

	Textiles	Apparel
Thailand	Suspension	1.23 percent.
Malaysia	Negative	Negative.
Indonesia	Accession	Accession.
Singapore	Negative	Negative.
The Philippines	Accession	Accession.

(c) The domestic industry cannot establish that it is being injured by reason of textile imports; if they could show injury, the industry could use section 201 of the Trade Act of 1974, which provides protection to domestic industries that are injured be fairly traded by injurious imports.

6. The real problem we feel is the increasing domestic demand and overvalued dollar. There is a consensus that the real source of the enormous United States trade deficit is the overvalued dollar which has rendered U.S. domestic production uncompetitive vis-a-vis the rest of the world.

7. The Bill will not help the domestic industry because instead of limiting total textile imports, it will merely shift imports from those countries covered by the Bill to those countries not similarly covered. Of the total growth in textiles imports for 1983 and 1984, a substantial portion was due to suppliers not covered by the Jenkins Bill, such as Canada, the EC, and Mexico. Once the Pacific Rim suppliers are covered by strict quotas, these suppliers who are not covered by the Bill would continue their growth at an even faster rate, as long as the U.S. domestic production remains uncompetitive. Subsequently, not only that it will not retrieve the lost jobs, but erosion will also continue.

8. As you are well aware, the Jenkins Bill would cost the American consumers approximately $14 billion per year. The average price of clothing would increase substantially. Some estimates range as low as others range as high as 50 percent.

9. The effect of the Bill on Thailand will be very devastating. The abrupt sharp reduction of 64.4 percent will jeopardize more than one-sixth of the 600,000 workers directly involved in the production. It will reduce the total textiles and apparel export earnings of Thailand by about one-fourth. The total textiles and apparel exports of Thailand in 1984 was just short of 20,000 million Bhat or about 10 percent of all of Thailand's exports.

10. The base year of 1980 used was rather arbitrarily, taking the lowest point of imports due to the weak dollar up to 1984 when the dollar peaked a difference of more than 30 percent in real value, basing on: 1 SDR=US$1.30 in 1980 as compared with US$0.987 in December 1984; or an increase of 31.8%.

Now that the strength of the dollar is declining towards a more realistic level, we believe that imports will decline and that your trade deficit problems will diminish accordingly.

11. In the global context, the 'Jenkins Bill' would also be counter-productive to the expansion of world trade which is vitally needed for continued world prosperity. Forced reduction of the income of such a large number of countries, most of whose economics are market oriented, would reduce world trade and would certainly incite retaliation and counter-retaliation. Far from saving the U.S. textile industries, the Bill would introduce greater difficulties of world magnitude in an already difficult time.

12. The National Federation of Thai Textile Industries fully concurs with and supports the extension of the Multifiber Arrangement as the best alternative to unilateral approach. We therefore urge the U.S. as advocate to the principle of "Free and Fair Trade" to cooperate with other countries to find a solution on a multilateral basis that will be fair to all concerned.

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APPENDIX T: ASEAN MEMORANDUM ON ASEAN-U.S. TRADE AND ECONOMC RELATIONS, SUBMITTED AUGUST 19, 1985

INTRODUCTION

1. Basing their economies on a free enterprise and market oriented system, ASEAN countries have achieved a consistently high annual rate of economic growth even in time of world economic recession.

2. At the same time, as ASEAN economies grow stronger and more stable, ASEAN markets have been opened up for all types of products and ASEAN imports from the rest of the world have risen steadily. Some of these products are products of interest to the U.S. such as cotton, tobacco, wheat, aircrafts, telecommunication equipment, and other high technology products.

3. With a large and growing market of some 250 million people, abundant natural and human resources, and an environment of social and political stability, ASEAN countries are also attracting substantial volumes of foreign investment.

4. Strong economic performances have enabled ASEAN to devote considerable resources and efforts to the building up of regional security within the ASEAN and within the Pacific region, where the U.S. also has vital security and strategic interest.

5. With respect to bilateral ASEAN-US economic and trade relations, two way trade flow has expanded steadily and reached a total of 26.2 billion U.S. dollars in 1984. ASEAN is now the fifth largest trading partner of the U.S., while the U.S. ranks second only to Japan as ASEAN's most important trading partner. This clearly demonstrates the growing importance to one another of ASEAN and the U.S.

6. The continuously evolving interdependence between ASEAN and the U.S. is further reinforced by common commitment to an open world economy and a common stake in the further promotion of prosperity and development of security in the Asian and Pacific region.

ISSUES OF COMMON INTEREST

Multilateral approach to the global trade issues

7. ASEAN is highly concerned at the erosion of the open world trade system by continued rise is protectionism as more countries resort to unilateral measures to solve their domestic problems and economic structural imbalances.

8. ASEAN is convinced that a multilateral approach through the restoration of an open world system is fundamental for the economic progress of all countries.

9. ASEAN countries have, therefore, declared their support for the launching of the New Round of Multilateral Trade Negotiations and agreed that, though issues of interest to developing countries should be given authority. ASEAN is prepared to work closely with the U.S. on all issues including new issues that could be taken up. ASEAN countries have also been active among the Group of 77 to encourage a wider support for the New Round, and will continue to play a moderating role to reduce opposition to it. In addition, ASEAN countries have agreed that it would be necessary to move into the preparatory process expeditiously.

10. ASEAN is convinced that any further move towards more protectionism will jeopardize the common efforts to liberalize world trade and reverse the momentum that has, so far, been gained for the New Round.

Proposed legislation: Textile and Apparel Trade Enforcement Act of 1985

11. Of all the issues, this bill is the most serious threat to the evolving economic cooperation and collaboration between ASEAN and the U.S.

12. The Bill, as it stands, violates the most-favoured-nation principle of GATT by its exclusion of the member countries of the EC, Canada and Mexico. Its roll-back provisions as well as the inclusion of new products are also inconsistent with the provisions of the Multi-Fibre Agreement. The import licensing arrangement under this Bill will disrupt orderly trade in textile and apparels. Furthermore, the Bill repudiates the US commitments to the bilateral agreements with ASEAN and other

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countries and would create a general doubt about US commitments in this as well as other areas.

13. All ASEAN countries have made considerable investment in their textile industries which are high-labour absorbing industries as compared to other higher technology-embodied industries. Textile industries are therefore of vital importance to the ASEAN countries because they substantially contribute to ASEAN national income and employment; close to three million workers are employed in the textile industries throughout ASEAN. The passage of this Bill will have a serious and adverse effect on the economic development of the ASEAN countries and weaken their economic viability as well as undo much of the contribution that the U.S. has made to the advancement of the ASEAN region.

14. Moreover, the passage of this bill will inevitably involve the world in a trade war as countries would join in retaliation and counter-retaliation to protect their national interests. The U.S. will recall that this type of action was taken by a major Asian exporter not too long ago following a textile dispute with the U.S.

15. ASEAN wishes to reiterate its total opposition to this bill and urge the U.S. Congress to consider relief for the U.S. industries through a multilateral approach and to excercise the U.S. leadership in the negotiation for the extension of the Multi-Fibre Agreement (MFA) on terms acceptable to all parties. In this respect, ASEAN will continue to work closely with the U.S. for any modifications necessary to resolve issues of interest to both ASEAN and the U.S. in the negotiations for the extension of the MFA. Indeed, ASEAN has responded positively to the US request for close and continuing contact on these issues.

The Trade and Tariff Act of 1984

16. The original version of the bill which was seen as a major protectionist legislation was of serious concern to the ASEAN countries and all other U.S. trading partners. ASEAN countries, therefore, welcome and appreciate the efforts by the U.S. Congress which took account of the need to maintain market access, particularly for the products of developing countries, as well as the legitimate complaints of the U.S. industry and agriculture.

17. ASEAN particularly welcomes the extension of the U.S. GSP for another term.

18. A general review of the GSP is now being conducted by the USTR. ASEAN countries hope that a number of products requested by ASEAN would be favourably considered.

Graduation of Brunei Darussalam from U.S. GSP

19. ASEAN would also like to draw attention to the effects of the U.S. GSP renewal on one of its member countries. ASEAN understands that under the criterion of threshold per capita GNP of $8,500 one of its member countries, Brunei Darussalam, will be excluded from the beneficiary list of the U.S. GSP Scheme as of 1 July 1988.

20. ASEAN is deeply concerned that such use of per capita GNP criterion is rigid and unfair as it has no direct relationship to a country's level of industrial development and competitiveness. This is especially true when a developing country like Brunei Darussalam which is heavily dependent on the oil sector characterised by high dependency on foreign technology and foreign workers and great fluctuation in oil prices and with a small population.

21. ASEAN, therefore, strongly urges that appropriate steps be considered to stop the graduation of Brunei Darussalam and to reinstate it as a beneficiary of the U.S. GSP Scheme.

Nonrubber footwear

22. The US ITC has recommended the establishment of a quantitative restriction on the import of non-rubber footwear into the U.S. following a Section 201 petition.

23. The ASEAN countries, particularly the Philippines, Singapore and Thailand, would be adversely affected if this recommendation of the US ITC is acted upon, though the US industry is not being harmed by exports of non-rubber footwear from ASEAN countries. Indeed, the share in the US total import of the Philippines and Thailand actually declined between 1982 and 1983.

24. ASEAN, therefore, urges the U.S. to exempt the ASEAN countries, which are insignificant suppliers, from any restriction being contemplated.

OTHER ISSUES

25. ASEAN is very concerned about the general atmosphere of protectionism which is on the increase in the U.S. ASEAN notes that there are more than 50 bills

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to restrict imports into the U.S. pending in the U.S. Congress. Most of these bills will harm ASEAN exports and ultimately hamper ASEAN's economic development. Some of these bills are:

HR 1234, S 707: The Domestic Contents bill;
S 2731: The American Footwear Act of 1984;
HR 4784: The Trade Remedies and Reforms Act;
HR 5823: The Textile and Employment and Fair Trade Act of 1984;
HR 3035: The Trade Emergency and Export Promotion Act;
HR 1262: "Anderson's Bill" (Tuna).

26. ASEAN countries therefore urge US Congress to take account of the harmful impacts of these bills on ASEAN-US trade and economic relations.

27. ASEAN countries are also concerned that US industries are resorting to the filing of petitions on CVD, anti-dumping and other alleged unfair trade practices solely to disrupt imports and create market uncertainty as well as impose substantial costs on exporters in terms of time and money. Most of these petitions were subsequently proved groundless or of inconsequential impact on the competitiveness of US industries such as was the case with the CVD petitions against imports of textile and apparels into the U.S. from ASEAN countries and the petition on tuna imports. ASEAN also expects that the present investigations on steel pipes and tubes would yield the same results.

28. ASEAN therefore urges the U.S. to carefully consider each petition to determine its real merits before taking action under US law.

SUMMARY

29. Close contacts at all levels are already being conducted by the U.S. and ASEAN, and close cooperation in various areas of mutual interest already exists. These informal and often ad hoc arrangements should be further improved for the development of better understanding between ASEAN and the U.S. ASEAN has shown growing interest in using the ASEAN-US dialogue to provide a long-term framework for improving ASEAN-US trade.

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APPENDIX U: LIST OF ASEAN PARTICIPANTS AND LIST OF THAI DELEGATION MEMBERS, BANGKOK, THAILAND, AUGUST 19, 1985

List of ASEAN Delegation

BRUNEI DARUSSALAM

1. Mr. Abb. Gapar Ismail, Charge de Affairs, Brunei Embassy, Bangkok.
2. Mr. Tohen Tehani Abdullah, Second secretary, Brunei Embassy, Bangkok.
3. Mr. Chua Pheng Siong, Assistant Director, Economic Planning Unit, Bandaseri Bengawan.
4. Mr. Pg. Maidin Pg. Hashim, Deputy Director, Economic Department, Ministry of Foreign Affairs, Bandaseri Bengawan.

INDONESIA

1. HE Air Marshal Soebambang, Indonesian Ambassador to Thailand.
2. Mr. Adian Silalahi, Economic Counsellor, Indonesian Embassy, Bangkok.
3. Mr. Asyik Ali, Department of Trade, Jakarta.
4. Mr. Ibrahim Abdullah, Department of Trade, Jakarta.

MALAYSIA

1. HE Dato Ismail Mohamed, DPCM, JSM, Malaysian Ambassador to Thailand.
2. Mr. Chong Ngian Yet, Deputy Director of International Trade Division, Ministry of Trade and Industry, Kuala Lumpur.
3. Mr. Mohd Ali Alias, Trade Commissioner, Malaysian Embassy, Bangkok.

PHILIPPINES

1. HE Lt. General Rafael M. Ileto, Philippines Ambassador to Thailand.
2. Ms. Rora Navarro Tolentino, Counsellor, Philippines Embassy, Bangkok.
3. Mr. Abelardo M. Tolentino, Trade Service Officer, Philippines Embassy, Bangkok.

SINGAPORE

1. Mr. Peter Chan, Second Permanent Secretary, Ministry of Foreign Affairs.
2. Mr. Ridzwan Dzafir, Chairman of ASEAN Committee on Trade and Tourism (COTT).
3. Mr. Toh Hock Ghim, Counsellor, Singapore Embassy, Bangkok.
4. Mr. Simon de Cruz, First Secretary, Singapore Embassy, Bangkok.

THAILAND

1. HE Dr. Chirayu Isarangkun Na Ayuthaya, Chairman of the Seminar, Deputy Misister of Industry.
2. Dr. Pracha Guna-Kasem, Director-General of Economic Department, Ministry of Foreign Affairs.
3. Mr. Sakol Vanabriksa, Director-General of ASEAN Department, Ministry of Foreign Affairs.
4. Mr. Danai Tulalamba, Ambassador-at-large, Ministry of Foreign Affairs.

Members of Thai Delegation Headed by HE Dr. Chirayu Isarangkun Na Ayuthaya

GOVERNMENT

1. HE Dr. Chirayu Isarangkun Na Ayuthaya, Deputy Minister of Industry, Head of the delegation and Chairman of the Seminar.
2. Mr. Arsa Sarasin, Permanent Secretary, Ministry of Foreign Affairs.
3. Mr. Kamchorn Sathirakul, Governor, Bank of Thailand.

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4. Mr. Pracha Guna-Kasem, Director-General, Economic Department, Ministry of Foreign Affairs.
5. Mr. Danai Tulalamba, Ambassador-at-large, Ministry of Foreign Affairs.
6. Mr. Bajr Israsena, Director-General, Foreign Trade Department.
7. Mr. Nibhat Bhukkanasut, Deputy Director, Office of Fiscal Policy, Ministry of Finance.
8. Mr. Abinant Na Ranong, Director, Economic Relations and Cooperation Division, Economic Department, Ministry of Foreign Affairs.
9. Mr. Kasit Piromya, Director, Policy and Planning Division, Ministry of Foreign Affairs.
10. Mr. Surapong Poshyanonda, Director, Economic Information Division, Economic Affairs Department, Ministry of Foreign Affairs.
11. Representative from the National Economic and Social Development Board.

MEMBERS OF THAILAND NATIONAL ASSEMBLY

1. General Kriangsak Chomnan, Chairman of Foreign Relations Committee, House of Representatives, and former Prime Minister.
2. Mr. Chumsai Hasdin, Member of the Senate, Secretary of Economic and Industrial Affairs Committee.
3. Mr. Charnvut Bhodhiratnungkoon, Member of the Senate, Economic and Industrial Affairs Committee.
4. Mr. Darong Singtohtong, Chairman, Economic Affairs Committee, House of Representatives.
5. ML. Seri Pramoj, Economic Affairs Committee, House of Representatives.
6. Mrs. Supatra Masdit, Foreign Relations Committee, House of Representatives.

REPRESENTATIVE OF PRIVATE SECTOR

Board of Trade of Thailand (BOT)

1. Mr. Yukta na Thaleng, Vice President, Board of Trade of Thailand, Vice President, Thai Chamber of Commerce.
2. Mr. Photipong Lamsam, Secretary General, Board of Trade of Thailand.
3. Dr. Som Jatusipitak, Assistant Secretary General, Board of Trade of Thailand.
4. Mr. Phongsak Assakul, Director, Board of Trade of Thailand, Vice President, Thai Textile Manufacturing Association.
5. Mr. Eam Uahwatanasakul, President, Thai Garment Manufacturer's Association.
6. Mr. Vichien Traiwongphaisal, President, The National Federation of Thai Textile Industries.
7. Mr. Chatchai Boonyarat, President, Thai Food Processors' Association.
8. Mr. Thapana Bunnag, Executive Secretary, Board of Trade of Thailand.

The Association of Thai Industries (ATI)

9. Mr. Anand Panyarachun, Vice President, The Association of Thai Industries, and former Thai Ambassador to Washington.
10. Mr. Boonluck Boonyaratanekornkit, Chairman, Leather-Based Industry Club of ATI.
11. W.Cdr. Thinakorn Bhandhugravi, Chairman, Food Processing Industry Club of ATI.
12. Mr. Ganok Bhongbhibhat, Chairman, Iron and Steel Industry Club of ATI.

Thai Bankers Association (TBA)

13. Mr. Narong Srisa-an, Director and Senior Executive Vice President Thai Farmers Bank Ltd.
14. Mr. Chote Sophonpanich, Senior Executive Vice President Bangkok Bank Ltd.
15. Mr. Pakorn Thavisin, President, Thai Danu Bank Ltd.

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APPENDIX V: SPEECH BY HON. E.P. HO, CBE, JP, SECRETARY FOR TRADE AND INDUSTRY, AT THE DINNER IN HONOUR OF CONGRESSMAN GIBBONS AND DELEGATION ON TUESDAY, 20 AUGUST 1985

Congressman Gibbons, other distinguished members of the House of Representatives, Ladies and Gentlemen:

Congressman Gibbons, it is a pleasure and an honour for me to host this dinner for you and your delegation tonight. I particularly welcome your initiative in making this visit to Hong Kong and countries in the region at this time when your committee in the House is faced with an extraordinary number of very important trade bills.

2. As your delegation have been interested enough about Hong Kong to touch our shores, I should like to assure you that the Sino British Joint Declaration on the Future of Hong Kong has possibly surpassed the expectation of many of our people in that regard.

3. When, in 1997, China resumes sovereignty over Hong Kong and the Hong Kong Special Administrative Region comes into being, it will enjoy a high degree of autonomy. It will continue to determine its own financial policy and manage its own financial resources. It will determine its economic and trade policies tailored to its own needs. The free enterprise system, free trade policies and free port will remain; individual freedoms and rights, including those in economic matters, such as freedom of movement of capital, the right to own and dispose of property, and the right to full and prompt compensation for lawful deprivation of property, are protected. The continuity of existing leases and rights in land will also be assured after 1997. Hong Kong will retain its own system of law, which will include the present English Common Law and Laws passed by its own legislature. The judicial system, in particular the independent exercise of judicial power, will remain unchanged.

4. Equally important, the Hong Kong SAR will be responsible for its own external economic relationships, and maintain its status as a separate customs territory under the GATT, and under other international commercial arrangements. The Hong Kong Dollar will continue to circulate and remain freely convertible; there will be no exchange control.

5. So Hong Kong, which is now a worthwhile market in its own right (our 5½ million people have a per capita GDP approaching US$6,000 p.a.) and ideally located to service China and this side of the Pacific Rim, can expect to be able to continue as a base for US and other corporations for the next 62 years, at least.

6. Of course, Hong Kong places the highest value on its trading relations with the US. You are our major trading partner, accounting for 45% or US$8 billion of our domestic exports to all markets and about 10% or $3 billion of our imports. These figures alone tell clearly the importance of the US to Hong Kong, and reflect our generally excellent trade relations with the US. But there is much more to our relations than these trade statistics show.

7. Hong Kong is a shining example of a free market economy and honours to the full its commitments under the GATT. Hong Kong does not levy import duties, nor does it maintain any restrictions on imports. We have no hidden barriers to trade, and keep to a minimum license and other import formalities.

8. Hong Kong has an externally oriented economy. Being without natural resources, save for its people, fine harbour, man-made communication facilities and location, it is dependent on trade with the rest of the world. In 1984, our total trade (domestic exports re-exports and imports) amounted to US$57 billion, or nearly 180% of the value of our GDP. We must import to survive.

9. Our imports from the US have grown at an average of 13% per annum between 1974 and 1984. In per capita terms US imports into Hong Kong in 1984 represented about US$570 per head, substantially more than the EEC (US$170), Japan (US$200), Korea (US$150), Taiwan (US$270) and Australia (US$310). Major imports in 1984 included integrated circuits, electronic components, tobacco, vegetables and fruit. For every 3 cigarettes smoked 2 were made in USA and we were one of the largest markets for California oranges. The Hong Kong based airline, Cathay Pacific, has a fleet of 19 aircraft, comprising 10 Boeing 747's and 9 Lockheed Super Tri-Stars.

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10. Hong Kong provides a base for over 800 US firms, including 3M, IBM, Texas Instruments, Sea-Land, Exxon, Eastman Kodak, Xerox and many other multinational corporations.

11. Hong Kong is the third largest financial centre in the world after New York and London, and the US participates actively in our financial sector. In 1984 there were 20 US banks in Hong Kong, including Citibank, Bank of America and Chase Manhattan. There were also 36 US deposit taking companies.

12. Hong Kong welcomes overseas investment and offers an environment in which there is a free flow of capital and of return on investment without exchange controls. The US is the largest source of overseas investment in our manufacturing industry, accounting for 54% of total overseas investment. Over 120 factories in Hong Kong are wholly or partly owned by US interests, employing 40,000 workers, over 4% of the industrial workforce. Sales of these concerns in 1983 amounted to US$1.7 billion, nearly 10% of Hong Kong's domestic exports in that year.

13. There are nearly 14,000 US citizens resident in Hong Kong. The Directory of American Business in Hong Kong includes nearly 80 pages of American companies operating in Hong Kong, nearly 30 pages of American companies and their Hong Kong Agents/Distributors, 30 pages of American products listings, and 30 pages of American services ranging from accountancy to warehousing, and commodity brokers to security services. Even allowing for some duplication that is a very impressive measure of US involvement in Hong Kong.

14. In the important area of protection of intellectual property rights, Hong Kong has uniquely strong legislation which is vigorously enforced by the Customs and Excise Department and, in civil areas, by the private sector. We believe that remedies available under our legislation are unrivalled anywhere in the world. Hong Kong's efforts to fight intellectual property violators are well recognised, through awards and commendations to our Customs by, amongst others:

(a) Recording Industry Association of America;
(b) Oxford University Press;
(c) Collier MacMillan International Publisher;
(d) The Motion Picture Association of America;
(f) US Customs.

The American Chamber of Commerce also submitted a very favourable report on our efforts in this area to the GSP review.

15. And, finally on this topic, Hong Kong's labour force is protected by comprehensive labour legislation reflecting our observance of International Labour Organisation conventions. The group of ILO conventions not adopted by Hong Kong are in the social insurance field, and here we provide basic cover for our people on a non-contributory basis in both cash social security benefits and in direct health care.

16. In our struggle to improve our living standards through trade, we let the market decide what we can do best. In this connection textiles are of vital importance to Hong Kong. In 1984, 31% of our exports to the US comprised textiles subject to restraint under our bilateral textiles agreement. The US textiles sector has for many years consistently enjoyed a level of protection far in excess of that accorded to any other sector. The textiles and apparel sector is a sensitive area in the US, for reasons that are well known to all of us here tonight. The issues involved are serious and deserving of sympathetic understanding, as is the spectrum of problems in the larger areas of the trade and budget deficits, international currency movements, fluctuating exchange rates and the high dollar.

17. But I do not propose to go into any details here concerning these problems, save to note in passing that, as regards the US industry, textiles shipments increased 12% in real terms from 1972–1984 (i.e. pre-MFA to the present), while employment decreased by 23%, and apparel shipments increased almost 15% in real terms over the same period, while employment declined 10%. This seems to me to provide strong prima facie evidence that unemployment in the textile and apparel industries, over a period of time, has been caused by structural adjustment and productivity gains within the industry. They have not been caused to any significant extent, if at all, by imports.

18. But I raise this issue tonight because of serious developments arising from the Jenkins Bill which was introduced into the House of Representatives on 19 March. The Bill has gained tremendous support—over 290 in the House at our latest count, not to mention 54 co-sponsors in the Senate for its version of the same Bill. We and other developing countries are dismayed and alarmed by the Bill, which we believe to be in no-one's interest, least of all the US.

19. The Bill proposes a number of radical measures, the principle ones being:

(a) a drastiac reduction in imports of MFA products from developing country suppliers—For example, in 1985 on 1984 trade, Indonesia would suffer cuts of 85%,

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Thailand, China and Brazil 54%-65%, Taiwan 45%, Korea and Pakistan cuts of 34%-36%, and India and Hong Kong 11%-13%.

(b) a unilateral extension of restraints to non-MFA products (i.e. silk, ramie, linen)—Cuts here would be even more drastic, and would mainly affect Hong Kong, China, Korea and Taiwan, the main suppliers of these items—products not even manufactured in the United States.

The Bill would also result in increased costs to consumers, which would be concentrated and most keenly felt in lower-income groups.

20. The proponents of the Bill claim that it is simply an enforcement measure which accords with the United States' rights and obligations under the MFA. This is not so. The Bill is in conflict with the GATT, the MFA, and with bilateral agreements between the US and many developing countries. It is discriminatory (the limits would not apply to Canada and the EEC), and indeed if enacted it would effectively mark the end of the multilateral discipline which presently governs this sensitive area of world trade. It would exacerbate existing frictions in developed/developing country relations. It would invite rapid and damaging retaliation against US exports. And it would, by logical extension, threaten the fabric of world trade generally.

21. It would certainly not further the proposal, to which the US is committed, of launching a major round of new trade negotiations to halt and reverse the spread of protectionism.

22. The ability to export textiles and textile products is an important part of many developing countries' ability to earn foreign currency. If developing countries cannot earn foreign currency, they cannot spend it on imports, nor can they use it to service thee debts. It is worth noting that on 1983 figures, developing countries purchased more than US $75 billion worth (about 38%) of US merchandise exports, exceeding such US exports to Western Europe and Japan combined.

23. Three further points on this subject. First, whatever the allegations of your textiles lobby on the actions, or the lack of it, by the US Administration, as seen from our perspective, certain measures taken by the Government of the United States of America go beyond the bounds permitted by the bilateral textiles agreements you have solemnly entered into, as well as the provisions of the MFA: there are recommendations by the Textiles Surveillance Body in Geneva, established under the MFA, which bear this out.

24. Second, do not forget that the US was the main motive force behind the MFA, at the behest and encouragement of the US industry. There is no doubt that the Bill is fundamentally in breach of the MFA. It is ironic that the Industry should now demand that the US break international agreements made in response to the Industry's pressure. Further appeasement can only bring disaster for all.

25. Third, although the textile industry has mounted a highly professional compaign to promote the Bill other US interests are bound to be adversely affected if the Bill is enacted. One manufacturing job in six in the US depends on exports, and these interests will be the ones to suffer as a result of enactment of the Bill: so will your farmers and tobacco growers.

26. This Bill, and other protectionist legislation now awaiting its turn in the House and in your committee, is against the interests of the United States, its many friends and its trading partners. The politics of protectionism is clearly a powerful and emotive force, and the heavy responsibility for dealing with that force in the US rests with you and your colleagues. We in Hong Kong and others throughout the free world are sympathetic and are looking to you to exercise imagination and leadership in addressing the issues and resolving the problems which face you now and which will undoubtedly grow in the next few months.

27. For those of you who consider that I have overstepped my bounds in speaking to you thus, instead of offering you dinner promptly, I apologise. But we are not a little bewildered because we are a completely open economy—doing what successive US Administrations preach—and yet your actions seem targetted at us. These shocks notwithstanding, I would like to conclude by reaffirming our trust in fair play, our commitment to maintaining our open market policies and our excellent commercial relations and friendship with the US.

APPENDIX W: HONG KONG FACT SHEETS, SUBMITTED TO THE DELEGATION BY THE TRADE MINISTRY, AUGUST 20, 1985

THE UNITED STATES AND HONG KONG

SOME IMPORTANT FACTS

Introduction

Hong Kong is firmly committed to an open market policy. This policy applies to trade in goods and financial and other services as well as to investments in Hong Kong industry.

Hong Kong has excellent communications and financial services, is ideally located and enjoys an established and stable legal system. The agreement on Hong Kong's future ensures that its importance as a regional centre will extend well beyond 1997.

The economy of Hong Kong is highly externally oriented and dependent on trade with the rest of the world. In 1984, the value of Hong Kong's total trade (domestic exports, re-exports and imports) amounted to US$57 billion, or nearly 180 per cent of the value of its GDP for that year. With little natural resources Hong Kong has to import most of its requirements. In 1984, the value of imports into Hong Kong amounted to US$29 billion, or 90 per cent of the value of its GDP for that year. Hong Kong must export on a sufficient scale to generate foreign exchange earnings to pay for its imports, and the volume of exports must rise over time if the people of Hong Kong are to enjoy a rising standard of living.

Fact 1

Hong Kong is an important market for US goods

- The United States is Hong Kong's major trading partner. In 1984, Hong Kong imported US$3.1 billion worth of goods from the United States. All these imports were free of import duty.
- Hong Kong's imports per capita from the United States in 1984 were about US$577, substantially more than for example the EEC (US$172), Japan (US$198), Korea (US$150), Taiwan (US$268), Australia (US$312).
- In 1984 Hong Kong was the second largest export destination for US cigarettes (US$147 million). 62 per cent of Hong Kong's domestic market comprises US cigarettes.
- In 1984 Hong Kong was the third largest market for US oranges (US$52 million).
- Major imports from the US include integrated circuits (US$326 million in 1984), electronic components (US$305 million), tobacco (US$173 million) and vegetables and fruit (US$161 million).
- The Hong Kong based airline Cathay Pacific has a fleet of 19 aircraft, comprising 10 Boeing 747's and 9 Lockheed Super Tri-Stars.

Fact 2

Hong Kong is an important location for US interests

- Almost 14,000 US citizens are resident in Hong Kong.
- Hong Kong is ideally located in relation to the Pacific Rim and China.
- Many US firms have set up their Asia-Pacific Regional Headquarters in Hong Kong, e.g. Wang Laboratories, Westinghouse, Hercules Inc., Bank America Trading Corp., Mast Industries (of "The Limited"), and Allen-Bradley.
- In 1984, there were over 800 US firms in Hong Kong, including 3M, Dow Chemical, IBM, Mobil Oil, Exxon, Eastman Kodak, Texas Instruments, Sea-Land, Xerox, and many other major multinational corporations.
- Hong Kong is one of the world's major financial centres, and US financial institutions play an active part. This can be reflected by the number of US financial institutions operating in Hong Kong. At the end of 1984, there were a total of 140 licensed banks, of which 105 were banks incorporated outside Hong Kong. Within the latter category, there were 20 US banks and they constituted the single largest group (accounting for 19 per cent in this category). In the related deposit-taking business, there were 36 US deposit-taking companies out of a total of 343 such institutions.
- US banks in Hong Kong include Citibank, Bank of America and Chase Manhattan Bank.
- In the insurance sector, US companies rank second in number amongst foreign insurers operating in Hong Kong. Of the 287 insurance companies authorised in Hong Kong, 47 are wholly or principally owned by US companies. Of these, 31 are wholly US owned.

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- The largest US insurers authorised to operate in Hong Kong include the Prudential Insurance Co. of America, Insurance Company of North America and Fireman's Fund Insurance Company.
- US companies also participate actively in the securities, commodities trading and accounting sector. These include Salomon Brothers Asia Ltd. and Chase Manhattan Asia Ltd. as dealers in securities; Shearson Lehman/American Express Finance Ltd. and Citicorp International Ltd. as investment advisers; Merrill Lynch — Sun Hung Kai (Overseas Securities) Co. Ltd. and Shun Loong — Bear Stearns Ltd. as dealers in commodities; Drexel Burnham Lambert (HK) Ltd. as commodity trading advisers; and Arthur Anderson & Co. and Deloitte Haskins & Sells as Certified Public Accountants.
- Hong Kong welcomes overseas investment and offers an environment in which there is a free flow of capital and of return on investment without exchange control.
- The US is the largest source of overseas investment in Hong Kong's manufacturing industry, and accounts for 54 per cent of total known overseas investment.
- 126 factories in Hong Kong are known to be wholly or partly owned by US interests. Amongst them are Sprague, Motorola, Commodore and Data General.
- These factories employ nearly 40,000 workers, over four per cent of the industrial workforce. Sales of these concerns in 1983 amounted to US$1.7 billion, of which US$1.4 billion were exports, accounting for nearly 10 per cent of Hong Kong's domestic exports in that year.
- US companies benefit from the government's policy of providing an efficient business environment and supporting infrastructure, including good communications, an efficient port and airport, a stable currency free from exchange controls, a low tax regime and an established legal and judicial system.

Fact 3

The US is an important market for Hong Kong goods

- The US is Hong Kong's largest market. In 1984 it accounted for US$7.9 billion of Hong Kong's domestic exports, or 45 per cent of Hong Kong's total domestic exports.
- Most of Hong Kong domestic exports to the US are subject to import duties, although in 1984 16 per cent entered duty free under the GSP scheme.
- In 1984, 31 per cent of Hong Kong's domestic exports to the US were MFA textiles. The scope for growth of these items is severely limited by a bilateral restraint agreement. In addition to these restraints textiles and textile products face very high import duties, generally about 30 per cent.

Fact 4

Hong Kong practices free trade

- Hong Kong does not levy any import duties. Duties for revenue purposes are levied on imports and domestic production of cigarettes and tobacco, alcoholic liquors, methyl alcohol, some hydrocarbon oils, non-alcoholic beverages and cosmetics. In 1984 only 6.3 per cent of all imports were subject to duties for revenue purposes.
- Hong Kong treats foreign and locally owned companies on the same footing.
- Hong Kong does not maintain any restraints on imports.
- Hong Kong does not have any trade-distorting investment practices or policies.
- Thus imports from the US are free to increase in competition with products from other countries or indeed from Hong Kong. In fact, US imports into Hong Kong have increased at 13 per cent per annum between 1974 and 1984.
- This philosophy and practice applies also to financial and other services.

Fact 5

Hong Kong respects international trading principles

- Hong Kong does not subsidise its exports in any way.
- Hong Kong has strong intellectual property, patent and trademark laws which are vigourously enforced.

Fact 6

Hong Kong's labour force is protected by legislation

- Hong Kong's labour force enjoys internationally recognised workers' rights, and is protected by comprehensive labour legislation reflecting Hong Kong's status as a signatory to the International Labour Conventions.

Trade Department,
August 1985

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APPENDIX X: SUBMISSION BY THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG, AUGUST 21, 1985

MARKET ACCESS—BARBARA THOMAS

The Asia-Pacific Council of American Chambers of Commerce (APCAC) congratulates the Administration and Congress on its efforts to liberalize international trade and investment and to curb protectionist practices. APCAC would like to remind our Asia-Pacific trading partners that these efforts and attitudes have made the U.S. market the most open market in the world.

However, it remains that American business continues to be excluded from free and equal competition in goods, services and agricultural products in many Asia-Pacific countries because of tariff and non-tariff barriers which exist as a matter of host government policy and practice. The American business community stands firmly behind the U.S. Government to dismantle these barriers and to create an equitable trade and investment climate so our access to foreign markets is equivalent to our foreign competitors' access to the U.S. market.

No longer will U.S. business tolerate inequity of market access and national treatment. 1984 witnessed a two-for-one trade imbalance with our Asia-Pacific trading partners and the trading results for 1985 indicate further deterioration. Market access restriction in the Asia-Pacific region is particularly troublesome as it effectively protects many of U.S. industry's major competitors providing them a safe haven shared-market profit base from which to enhance their competitiveness.

The U.S. Government must work closely with the American business community to identify such barriers and eliminate them through bilateral and multilateral negotiations.

To this end, the Administration must make full use of all existing legislation especially the provisions of the Trade and Tariff Act of 1984 to ensure open markets for American goods and services in the region. We are particularly concerned about the U.S. Telecommunications, Forest Products, Pharmaceuticals and Medical Products, and Electronics industrial sectors which are threatened by foreign competition because of unfair market access. In negotiating market access with our Asia-Pacific trading partners, we want to ensure the following are understood:

A strong international trading position is a vital component of our national security.

The industries above, critical to future economic growth and national security, are seriously jeopardized by unfair market access.

It is essential that immediate strong measures be taken to equalize the trading environment.

We should send a strong signal to our trading partners that continued access to our market will depend on fair access to their markets.

Bilateral negotiations with our major trading partners should begin by eliminating tariff and non-tariff barriers.

Where this fails, the U.S. must be prepared to make full use of existing U.S. legislation to create an equitable trading and investment environment.

EXPORT FINANCING—LYNN MCPHEETERS

The Asia-Pacific Council of American Chambers of Commerce (APCAC) encourages the U.S. Government to continue its support for Competitive U.S. Export Financing.

Fiscal year 1986 budget

The Budget proposes an increase in U.S. Eximbank's guarantee and insurance program authorizations which will provide much needed support. To eliminate entirely, however, the direct loan program, as currently proposed, is short-sighted and potentially damaging to U.S. exports.

While there has been a decline in direct loan utilization from 42% to total Exim authorization in 1981 to 9% in 1983 and perhaps even lower in 1984, the need for some continuing level of funding capability can be justified.

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Direct loans are generally utilized for major projects with heavy capital equipment requirements. The worldwide recession resulting in lower commodity prices and LDC debt reschedulings have caused most governments that would have utilized these funds to roll back development budgets and defer the majority of these projects including mines, airports, roads, dams etc.

This does not mean, however, that the ultimate need for the end products of these projects had been eliminated. One would assume that as the world emerges from the recession and as LDC economies begin to feel the positive effects of improving trends in industrialized countries, major development projects will once again take their place in spending programs around the globe as developing countries attempt to improve their standards of living.

A resurgence of this type could certainly be seen by 1986–87 if economic projections contain any validity. It will be these major projects then that will utilize the type of funding supplied in the past by the direct loan program. Whether drawn or not, the program needs to be in place to at least indicate to competitors of U.S. exporters in other nations and to prospective customers that support is available.

Even though demand for direct loans has declined it is doubtful that it will be replaced completely by other programs such as guarantees, insurance or the new proposed interest subsidy. We urge the Administration, Congress and U.S. Eximbank Board, which is more supportive of U.S. Exporters than ever, to maintain some reasonable level of funding for direct loans in FY86.

Mixed credits

We support the U.S. Eximbank position that mixed credits should be "defensed" and not openly marketed in a predatory manner. We believe, however, that competitors in OECD nations will, generally speaking, always have the mixed credit facility at their disposal. In essence this will usually put the U.S. exporter at a disadvantage from the beginning.

The possibility of a new "consulting facility", as suggested by the EC, to advise mixed credits at an earlier stage than presently done would conceivably benefit U.S. exporters since the use of such credits would only be available as a defensive measure. We would support implementation of such a facility and advise continued review by U.S. Exim of mixed credit activity by other nations.

Foreign content

The current attitude of the U.S. Eximbank toward the level of foreign content in Exim supported transactions is too restrictive. The strength of the U.S. dollar and availability of lower cost manufacturing sources for componentry is causing more and more U.S. manufacturers to "out-source" for remain competitive. It is highly likely that this trend will not be reversed soon and, in fact, may increase. Therefore, it is time to evaluate the needs of U.S. manufacturers regarding flexibility of foreign content levels.

Most of the other OECD member export credit agencies have relative flexibility in this area. The end product must be, and should be, manufactured in the home country. However, foreign content of 10–20% is not uncommon while still qualifying for full export credit support by these other agencies. We believe this should be satisfactory to U.S. Exim instead of either not accepting the transaction or reducing the transaction amount eligible for financing.

As long as the finished product is manufactured in the United States and the level of foreign content is reasonable the U.S. Eximbank, by financing the sale transaction, is still supporting export related jobs.

Education and training

We fully support the recent efforts of Eximbank and the new Marketing Division to increase training for exporters, bankers and government intermediaries. However, the focus of all of this training is in the United States while the majority of individuals who influence and structure transactions for major U.S. exporters reside in locations outside the United States.

It is felt that re-establishment of a field office in the APCAC area for the purpose of disseminating information about Exim programs and training banks and exporter representatives would increase the potential for Exim utilization and therefore for U.S. exports. It is suggested that increased involvement of resident U.S. Government personnel in foreign locations could greatly enhance the education process.

General

We continue to support the funding provided for the U.S. Trade Development Program (TDP) and encourage an integrated approach by TDP, Exim and co-financing programs of the multilateral development agencies for packaged project financing.

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Export Controls—Richard J. Johannessen

1. The Asia-Pacific Council of American Chambers of Commerce (APCAC) urges Congress to pass new Export Administration legislation. APCAC recognizes that significant progress on Export Controls has been achieved during the past twelve months; however, there are issues remaining to be solved and initiatives required. APCAC supports the efforts of Senator Garn and Representative Bonker to achieve a compromise which will allow for the passage of the new Export Administration Act. APCAC urges early passage of the new Export Administration Act without further delay with the following features:

The principal control of exports vested with the Department of Commerce.

A commodity control list no more restrictive than the COCOM list, since any differential restriction erodes U.S. industrial competitiveness in the face of real foreign availability.

Its primary control targeted at keystone processes and manufacturing technology, not finished products.

The further streamlining of licensing procedures.

2. APCAC encourages the U.S. Government to work towards the establishment of a "COCOM Green Line", analogous to the Green Line used by the U.S., to eliminate the need for COCOM review of cases where national security concerns are minimal.

Foreign Corrupt Practices Act—Paul J. Cassingham

I. Current act

A. Divided into anti-bribery and accounting provisions.

B. Anti-bribery provision prohibits payment, offer of payment or gift to foreign public official, foreign political party or foreign political candidate to obtain or maintain business.

C. Accounting provision requires company to keep books and records in "reasonable" detail and maintain a system of internal accounting controls which provides "reasonable" assurances that payments can be detected.

II. Problems with current act

A. Grease payment—legality is uncertain.

B. Payment by agent—principal is liable if he had "reason to know" the agent would make a prohibited payment, offer or gift.

C. Token gift—legality is uncertain.

D. Accounting requirements—too vague.

III. Proposed amendment

A. Grease payment—legality would be clarified.

B. Payment by agent—principal would be liable only if agent was directed or authorized (e.g., by principal's conduct) to make a prohibited payment, offer or gift.

C. Token gift—legality would be clarified.

D. Accounting requirements—standards would be clarified by reference to cost/benefit analysis.

Textiles—Ira D. Kaye

We Americans in Hong Kong are very cognizant of the problems facing the U.S. with regard to the imbalance in trade figures, the budget deficits, and of course the need to get our country moving in the right direction with a positive outlook rather than the negative approaches that are being taken.

It would appear that most of the countries' trade problems reflect the tremendous increase in the value of the U.S. dollar—an estimated trade rated 75%—during the past five years, a shift that has stimulated imports and discouraged exports. However, since February the dollar has climbed sharply, by at least 15%, against the major foreign currencies, and no end to its weakness is insight.

What Americans fear is the possibility of a trade war which means casualties, an unpleasant fact of life which in the protectionist fervor, somehow seems to have been overlooked. Therefore what happened a short time ago in the British Parliament strikes us as a timely reminder, not to say warning. After years of fruitless negotiations with Washington over the controversial issue of what is known as worldwide unitary taxation, whereby State Governments—unfairly, in the general view imposed a levy on Multi-National company's global profits, the House of Commons has just struck back. Specifically in a rare gesture of bi-partisanship, Troys and Laborites alike have unanimously approved a measure which, in retaliation,

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proposes to exact a heavy toll from U.S. Multi-Nationals in forfeited tax credits: Nobody wins a global war.

But that doesn't stop special interest from trying, and, once in awhile, gaining a temporary advantage at everyone else's expense. The administrative timing again has succumbed to the siren song of protectionism. Since taking office, the administration has pressured the Japanese to "voluntarily" restrain shipments of new cars to the U.S. raised duties by nearly half on imported motorcycles, tightened restrictions on textile imports and imposed tariffs and quotas on a wide range of specialty steel products manufactured abroad. In recent weeks, as noted, a bi-partisan block of protectionist in Congress has seized the initiative, introducing literally hundreds of bills pointed at one or another U.S. trading partners.

I know that you gentlemen have already heard something of Hong Kong's reaction to the Textile and Apparel Trade Enforcement Bill or the Thurman/Jenkins Bill at the dinner hosted by Eric Ho, Secretary for Trade last night, but I thought that it would be useful to detail some of those points now.

First, the Bill claims that raising imports have seriously damaged the U.S. Textile and Apparel Industry, leading to plant closures and unemployment.

However, the Commerce Department's statistics show that domestic textile and apparel shipments increased in real terms by 12% and almost 15% from 1972 to 1984 while employment dropped by about 23% and 10%. The Bill itself states that productivity has increased by 4.2% and 3.4% yearly for the past 10 years—in other words, all other things being equal, it now takes 35% and 29% less time to carry out the same amount of work as previously. These figures on employment levels and productivity case serious doubts on the alleged effect of imports on the U.S. industry.

Second, it has been said that the Bill is discriminatory and that it excludes imports from the EEC and Canada. Look at it another way, the most serious effects of the Bill fall almost exclusively on developing nations in Asia and the Pacific region. This discrimination against Hong Kong and Pacific allies and trading partners is most unfortunate and undesirable and is beginning to appear as though, while the Bill is aimed at the region, it appears more evident that it is primarily aimed at China and Japan. Only recently I heard that the Bill is being referred to as "The White Man's Bill".

Third, the Bill purports to enforce the MFA: this is a mockery of the truth.

The MFA provides for restraints only when necessary to protect specific sections of the Textile and Apparel Industry of importing countries.

The Bill provides for automatic protection regardless of need.

The MFA provides for a minimum growth of 6% per annum once restraints have been implemented.

The Bill provides for overall reductions of textile and apparel imports of 20–30%, comprising:

(a) Reduction to limits already in the fact under the MFA or bi-lateral agreements; and

(b) The unilateral introduction of new restraints including new restraints on silk, ramie and linen products not previously subject to any restraints, and not produced in the U.S. to any significant extent.

New restraint levels in individual cases may impose cuts of over 90%. Growth provisions in most cases would then be limited to 1% per annum.

The MFA eventually provides for restraint of textiles and apparel.

The Bill additionally applies to a whole host of new items such as toys, car seat covers, pillows and so on.

I think it is significant and worthwhile remembering that our country was the major motivating force behind the GATT and MFA, in the latter case urged by those industries which are now asking the U.S. Government to break its commitments under the MFA.

Finally, in my opinion while I regret the need for the Congress to take any protectionist action, such trade measures against Hong Kong is truly unjustified. Hong Kong represents everything that America stands for, free trade under the GATT, indeed embodying all the virtues of free trade, open market access that our Government is now urging on other trading partners. Furthermore Hong Kong is open to U.S. investment in Manufacturing, Service Industries and Banking as it clearly indicated by those representatives of the American Chamber of Commerce in Hong Kong meeting with you today. Hong Kong is indeed an international city and will enjoy its current standards 50 years after the territory reverts to China, it is the third largest financial centre in the world on the mainland of China. Someone remarked that Westinghouse was delighted because of the nuclear agreement with China for it will give them an opportunity perhaps to participate in the Daya Bay

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Nuclear Development which is a multi-billion program. I question the attitude of our China partners in this venture if the Congress passes the protectionist Bills which may be marked up when Congress reconvenes.

THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG,
Hong Kong, July 2, 1985.

Re: Initiation of General Review Under the U.S. Generalized System of Preferences (GSP).

The CHAIRMAN,
GSP Subcommittee, Trade Policy Staff Committee, Office of the U.S. Trade Representative, Washington, DC.

DEAR SIR: As required under the provisions of the new scheme for general review we submit the attached comments of this Chamber on the issues of beneficiary country practices regarding protection of intellectual property rights in Hong Kong.

We are confident that Hong Kong's recognition of and conformity with established codes of practice are being vigorously maintained to safeguard the image and integrity of Hong Kong in the market place as a "convention country".

Yours sincerely,

JOHN F. GOUDEY,
Executive Director.

INTELLECTUAL PROPERTY TRADE AND TARIFF ACT AND GENERALIZED SYSTEM OF PREFERENCES

1. The American Chamber of Commerce in Hong Kong ("AmCham") is a voluntary association of business people concerned with U.S. trade and investment in Hong Kong and in South East Asia. Membership is now over 1,500 and it continues to grow annually. AmCham is a member of the Asia-Pacific Council of American Chambers ("APCAC"), a regional body established in 1969, and is also a member of AmCham in the United States which has its headquarters in Washington, D.C. The objectives of AmCham are set out in Annexure 1 hereto. AmCham has approximately 20 standing committees including one devoted to intellectual property and licensing.

2. AmCham has conducted a detailed review of the intellectual property laws of Hong Kong, together with such laws as may have an effect on the ability of United States corporations to protect their corporate assets including intellectual property rights. It is AmCham's firm belief that:

(a) The intellectual property laws of Hong Kong, both from the perspective of substantive law and the rights created thereunder and the remedies available for the enforcement of such rights are more than adequate and are arguably amongst the strongest in the world.

(b) Hong Kong has no intellectual property law or administrative practices which act as a hinderance to the freedom of trade practice.

3. Hong Kong has a dual system for the protection of intellectual property rights. These consist of protection through the civil courts as well as protection through the criminal courts. Hong Kong is a member of the major international intellectual property conventions. As a result its laws have developed to comply with the obligations contaiend in those conventions. The laws in Hong Kong do not distinguish between the rights available to resident of Hong Kong and foreign entities. It is therefore open for a foreign corporation to arrange for the protection of its intellectual property rights in Hong Kong and to enforce those rights within the Hong Kong Courts.

4. The Nature of Intellectual Property Rights in Hong Kong.

A. General

The legal system in Hong Kong and the court system in Hong Kong is based upon the English common law system. A full account of Hong Kong intellectual property law may be found in Pendlenton—"Intellectual Property Law in Hong Kong" a copy of which accompanies this paper. The judiciary are largely appointed form England or other British Commonwealth jurisdictions and operate with independence from the executive. Annexure 2 sets out a summary of writs relating to infringement actions issued between 1982 to 1985.

Another important characteristic of Hong Kong is that there is a virtual absence of corrupt business or government practice and dealings. There is in existence a body known as the Independent Commission Against Corruption or 'ICAC" which is

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designed to prevent corrupt practices. As a reult Hong Kong is amongst the least corrupt territories in Asia and the international community.

B. Patent Law

Hong Kong patent law is identical to United Kingdom patent law. It confers the same rights and privileges as a patentee enjoys in the U.K. Foreign corporations have taken full advantage of the ability to register patents in Hong Kong of which a large proportion are registered by United States corporations. In 1984 the figure for foreign patent registrations applied for totalled 914 of which 276 came from the U.S.A., 190 from Japan and 126 from the U.K. In response to the specific points raised by the Federal Register Notice published on 28 January 1985, AmCham would respond as follows:

(a) Hong Kong provides full patent protection for chemical compounds and foodstuffs.

(b) There are no restrictions on the licensing of patents either through fiscal means or through technology transfer and investments law.

(c) As a matter of practice, there is no system of compulsory license for patents.

(d) The term of patent protection is 20 years.

C. Copyright

Copyright in Hong Kong derives principally from the United Kingdom Copyright Act 1956 which was extended to Hong Kong with immediate effect by the Copyright Hong Kong Order 1972 (a United Kingdom Order in Council). The result of this is that to a large extent the Hong Kong copyright law is identical to that of the United Kingdom. In addition to this piece of legislation which lays down both civil and criminal remedies for the infringement of copyright there also exists the Hong Kong Copyright Ordinance. This Ordinance makes inter alia the possession of copyright infringing articles a criminal offence with severe penalties.

In response to the specific questions raised by the Federal Register Notice AmCham would comment as follows:

(a) There is no lack of copyright protection for foreign works provided that the ownership of the copyright stems from a country which is a party to one of the international copyright conventions.

(b) Copyright is not required to be registered in Hong Kong in order to attract the protection of the Copyright Act. Copyright subsists automatically and there is no procedure for registration.

(c) Hong Kong law provides the means to prevent an unauthorized re-transmission of broadcast signals provided that the transmissions emanate from a convention country.

(d) Hong Kong law provides protection for three dimensional representatives to two dimensional works (see also the reference below to registered designs).

D. Registered Designs Act Protection

A scheme essentially similar to that which applies to patents prevails in the case of registered designs in Hong Kong. Once a United Kingdom registered design is obtained, it takes effect in Hong Kong by conferring on the registered proprietor in Hong Kong, the same rights and privileges as he would enjoy in the United Kingdom under the Registered Designs Act 1949. The effect of registration is to give the owner of the registered design an exclusive right in the work provided that the formalities of registration have been completed.

E. Trade Mark Law

Hong Kong was one of the first common law countries to institute a registered trade mark system in 1873.

There are a number of provisions in the Hong Kong Trade Mark Law which are unique in terms of the rights conferred on foreigners. Section 13 requires an applicant for a trade mark to be the true proprietor. Section 23 allows a foreign trade mark holder to oppose the registration in Hong Kong of a mark which resembles his foreign registered mark. Section 53 confers similar rights to those under Section 23 to a foreign trade mark proprietor except that instead of allowing a right of opposition to a trade mark which is applied for in Hong Kong, it gives a right to apply to have the Hong Kong trade mark removed from the register when it imitates a foreign registered mark.

In response to the specific questions raised in the Federal Register Notice. AmCham would comment as follows:

(a) There are no restrictions on the manner in which a trade mark can be used on products if a restriction deminishes the value of the marks.

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(b) There are no restrictions requiring the owner of the mark to maintain his trade mark registrations when quantitative import restrictions are imposed on the product protected by the mark.

F. Other Civil Remedies

In addition to the intellectual property rights outlined in the Federal Register Notice there are the following additional intellectual property rights:

(a) Passing off.—The English common law of passing off is applied directly in the Hong Kong courts without any significant modification. It is a form of law against unfair competition. It prevents the mis-representation of a product which has acquired a reputation and a goodwill in Hong Kong. The law can be used to protect goods, services and a corporate name even without a trade mark registration.

(b) The Law of Confidence.—The law of confidence protects all confidential information including trade secrets. Trade secrets are protected from disclosure in breach of a confidential relationship in Hong Kong as they are in other English common law jurisdictions.

G. Criminal Remedies for the Protection of Intellectual Property Rights

Hong Kong law provides two Ordinances giving considerable protection under the criminal law for intellectual property rights. The Ordinances provide that certain acts are criminal offences giving rise to criminal penalties which in some cases can include imprisonment for up to 5 years. The two Ordinances are the Copyright Ordinance and the Trade Descriptions Ordinance. (See further "A Brief on Hong Kong's Anti-Counterfeiting Efforts"—Annexure 3).

The Trade Descriptions Ordinance which came into effect in 1981 lays down serious criminal penalties for any trade description which in relation to goods (though not services) is misleading in a relevant respect. By Section 9 of this Ordinance the law expressly extends to any trade mark registered in Hong Kong or any mark applied for in convention countries and subsequently registered in Hong Kong within a specific period. The Ordinance confers significant powers of search and seizure on the Customs & Excise Department. The Ordinance creates an offence of forging a trade mark. This is no longer an offence in the United Kingdom. In addition it also creates an offence of possessing for the purposes of sale any goods to which a forged trade mark has been applied. Again this is not a criminal offence in the United Kingdom.

The Copyright Ordinance has been dealt with in Section C above.

H. Remedies in Hong Kong Civil Law

(a) General.—Hong Kong civil law provides for a number of remedies for the infringement of intellectual property including the award of damages, the award of permanent injunctions, the delivery up of infringing articles and the discovery of the sources of supply and sale of infringing articles. It also provides comprehensive interlocutory remedies. Such interlocutory remedies are of considerable practical importance. This is because claims for infringement brought in the Hong Kong courts often settle at an interlocutory stage and do not proceed to a full trial at which the substantive issues are canvassed.

(b) The Anton Piller Order.—One of the most important remedies in cases of serious piratical infringement is the Anton Piller Order. This order was developed in the English courts in 1976 and provides that a party whose intellectual property rights have been infringed by a person who is in possession of incriminating evidence and is likely to destroy that evidence may apply to a judge, without notice being given to the defendant, asking for an order to search the defendant's premises, to take away incriminating evidence and documentation and require disclosure of all persons connected with the infringing goods. Failure to comply with the order could mean that the defendant is in contempt of court and liable for contempt proceedings which might result in imprisonment. The Anton Piller Order is primarily a means of obtaining discovery at an early stage in the action or even in some cases of urgency before a Writ is issued.

(c) Interlocutory Injunctions.—If a party can establish that there is a serious question of infringement to be tried, then it may apply for an interlocutory injunction. The applicant does not have to show that it can prove infringement, merely that there is a serious question before the court and that on the balance of convenience the rights of the plaintiff should be stabilized by the granting of an interlocutory injunction. The court has a discretion to grant or refuse an application for an interlocutory injunction. A major factor in assessing the balance of convenience is whether or not damages will be an adequate remedy for the plaintiff. In almost all cases

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of infringement a plaintiff will seek to apply for such an injunction and in most cases, in the Hong Kong courts, is likely to be successful.

In response to the specific points raised in the Federal Register Notice AmCham would comment as follows:

(a) There is no lack of access to the courts for a foreign plaintiff seeking to enforce its intellectual property rights. However, as in all cases, in which a foreign plaintiff sues in the Hong Kong courts, without having a place of business in Hong Kong, the foreign plaintiff may be required to provide security for the defendant's costs. In practice this is not an onerous requirement.

(b) Remedies such as the Anton Piller Order and the ability of the court to order discovery of information from a party who is engaged albeit innocently in unlawful acts provide facilities for a plaintiff to obtain discovery of relevant evidence thus mitigating the burden of proof in infringement suits.

(c) Under Hong Kong civil law the penalties for infringement are generally adequate to discourage the practice of infringement and can result in very substantial financial loss to the defendant infringer.

I. *Criminal Remedies*

The penalties for breach of the Trade Description Ordinance provides for maximum penalties of HK$100,000.00 and imprisonment for two years for summary offenses and HK$500,000.00 and imprisonment for five years for indictable offenses. All goods seized are liable to forfeiture. Under the terms of the Copyright Ordinance anyone convicted of possession of infringing copies for the purpose of trade or business is liable to a fine of HK$1,000.00 for each infringing copy and to imprisonment for one year. The maximum penalty for the possession of plates used or intended to be used for making infringing copies is a fine of HK$50,000.00 and imprisonment for two years.

In addition the Customs and Excise Department has wide powers of seizure. In exercising these powers of seizure the Customs and Excise Department do not require a search warrant except to search domestic premises.

It is possible for a private prosecution to be brought under the Copyright Ordinance and Trade Descriptions Ordinance although this is rarely done in practice because of the more beneficial effect of civil procedures.

5. Conclusion:

It is AmCham's view that Hong Kong intellectual property laws provide considerable and effective protection for the rights of foreign trading companies. The following factors demonstrate this:

(a) In almost all civil infringement actions the claims against infringers are settled at an interlocutory stage, often on advantageous terms to the rights owner, and before substantial costs are incurred. The effectiveness of civil action is boosted by procedures such as the Anton Piller Order and the flexibility and willingness of the courts to assist in combating piracy.

(b) Since the introduction of the Trade Descriptions Ordinance there has been a gradual decrease in the number of civil actions. This suggests that the criminal law remedies are proving effective. It should be noted that the Customs & Excise Department is not restricted in seizing a particular type of infringing article on entering premises. Any infringing article found on the premises may be the subject of seizure.

(c) Recognized international anti-counterfeiting bodies such as the International Anti-Counterfeiting Coalition, the Anti-Counterfeiting Group and the U.S. Trademark Association do not maintain review committees for Hong Kong. It is accepted that Hong Kong law is effective in substance and practice. Hong Kong does not possess a reputation as a hot-bed of counterfeit activity.

ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE, POSITION ON THE TEXTILE AND APPAREL ENFORCEMENT ACT OF 1985, S. 680-H.R. 1562

Asia-Pacific Council of American Chambers of Commerce [APCAC] represents 22,000 overseas businessmen, 6,000 companies, 160 billion U.S. dollars American Trade Asia-Pacific. Appalled by prospect S. 680/H.R. 562. Jenkins bill, we believe protectionist legislation counterproductive, undermines credibility our efforts dismantle trade barriers Asia-Pacific, ignores real problem of strong dollar.

Bill flagrantly violates multi-fiber arrangement and bilateral agreements which have been carefully negotiated and remain best tools balanced trade. Believe bill destroys restraints against trade wars, fear retaliation our interests: drastic cuts textile trade Hong Kong, Indonesia, Korea, Pakistan, Philippines, Taiwan, Thailand will hurt our export of U.S. electronics, foodstuffs, construction, banking, transport, hundreds more. Urge you vigorously oppose S. 680/ H.R. 1562.

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TAX PROBLEMS OF SELF-EMPLOYED AMERICANS ABROAD EXECUTIVE SUMMARY

Introduction.—Self-employed Americans abroad are denied the full benefits of the Sec. 911 exclusion by the provision limiting to 30% the amount of net profit which can be considered earned income and the provision disallowing deductions attributable to excluded income.

Effect on taxpayers.—Taxpayers can wind up paying income tax in excess of their net profits.

Election of exclusion—If, to avoid this effect, the taxpayer elects not to take the exclusion after having done so in prior years, he is not allowed to claim the exclusion again for five years except with IRS prior approval.

Conclusion.—Three changes are needed to extend the full Sec. 911 benefits to self-employed Americans abroad:

(1) Delete the provisions of Sec. 911(d)(2)(B) limiting the percentage of net profits that can be considered as earned income for purposes of the exclusion.

(2) Limit the provisions of Sec. 911(d)(6) to apply only to the deduction or credit of foreign taxes paid on excluded income.

(3) Make the Sec. 911 exclusion annually elective.

Internal Revenue Code section 911 allows American citizens or residents working abroad to exclude all or part of their foreign earnings in calculating their income tax. The exclusion is elective and the current maximum exclusion is $80,000. There is a further elective exclusion or deduction of excess foreign housing expenses.

Employees of either incorporated or unincorporated businesses are able to claim the full exclusion. Self-employed entrepreneurs, however, may not receive the full benefit of the exclusion because of two restrictions written into the law. IRC Sec. 911(d)(2)(B) allows only 30% of the entrepreneur's share of net profits to be considered as earned income for the purpose of claiming the foreign earned income exclusion in those cases where both personal services and capital are material income producing factors. Sec. 911(d)(6) requires the entrepreneur to prorate his business expenses between excluded and non-excluded income.

Sec. 911(d)(2)(B) provides:

> *Taxpayer engaged in trade or business.*—In the case of a taypayer engaged in a trade or business in which both personal services and capital are material income-producing factors, under regulations prescribed by the Secretary, a reasonable allowance as compensation for the personal services rendered by the taxpayer, not in excess of 30 percent of his share of the net profits of such trade or business, shall be considered as earned income.

and Sec. 911(d)(6) provides:

> *Denial of double benefits.*—No deduction or exclusion from gross income under this subtitle or credit against the tax imposed by this chapter (including any credit or deduction for the amount of taxes paid or accrued to a foreign country or possession of the United States) shall be allowed to the extent such deduction, exclusion, or credit is properly allocable to or chargeable against amounts excluded from gross income under subsection (a).

To fully appreciate the implications of these two provisions, let's consider two actual cases. The first is that of a retail shop operator who followed the 30% limitation to determine his earned income and then prorated his business expenses. The second is that of a dentist who prorated his business expenses. Both wound up paying taxes on income that would have been fully excludable had they been employees rather than entrepreneurs.

The retail shop operator had 1984 gross sales of $1,309,188, cost of goods sold was $721,329, and other necessary business expenses were $531,571. Logically, his taxable income should have been calculated as follows:

Gross Sales	$1,309,188
Cost of Goods	(721,329)
Gross Income	587,859
Business Expenses	(513,571)
Net Profit	74,288
Sec. 911 Exclusion	(74,288)
Taxable Income	0

Since his $74,288 net profit was below the $80,000 maximum exclusion, he shouldn't have had to pay any U.S. income tax. The truth is that if he had elected to take the exclusion, he would have had to pay an income tax of $82,437 and social

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security self-employment tax of $4,271. That is a total tax bill of $86,708 to be paid out of a net profit of only $74,288! Let's see how this travesty developed.

Since only 30% of his net profit could be considered earned income, the merchant could claim an exclusion of only $22,286. He would then have been required to prorate his business expenses of $513,571 between the excluded $22,286 and the non-excluded $52,002 of net profits. IRS instructions then required the exclusion to be reduced by the expenses attributable to the excluded income. The $22,286 exclusion would have been reduced by $154,071 (30% of $513,571) for a negative exclusion of $131,785. IRS regulations then required that this negative exclusion be added to the original net profit of $74,288 to determine the taxable income. The law also required payment of social security self-employment tax on the first $37,800 of net profit. We have the anomoly of only 30% of net profit being considered as earned income for the purpose of the Sec. 911 exclusion but all of it was considered earned for the purposes of the self-employment tax. A hypothetical tax return showing these calculations is attached as Exhibit A. While the taxpayer paid income tax in his country of operation, foreign tax credits are not shown on the hypothetical return.

Faced with this dilemma, our merchant elected not to claim the exclusion. However, this itself presents a problem since he claimed the exclusion in prior years. Having elected not to exclude for 1984, he may not again claim the exclusion for five years without prior approval from the IRS. Requesting such approval is itself a burdensome process and there is no assurance that it will be granted.

Now let's turn to the case of our second entrepreneur, the dentist. Capital was not a major income producing factor in his practice but, since he was required to prorate his business expenses between taxable and excluded income, he could not enjoy the full benefit of the $80,000 exclusion either. For 1984, our dentist taxpayer collected fees in the amount of $140,216 and incurred business expenses of $96,495. Normally, he would have calculated his taxable income as follows:

Gross Income	$140,216
Business Expenses	(96,495)
Net Profit	43,721
Sec. 911 Exclusion	(43,721)
Taxable Income	0

But, as in the case of our merchant, following the IRS instructions resulted in his having to pay a substantial tax. In this case, $30,088 of business expenses attributable to excluded income were deducted from the $43,721 exclusion. Instead of being able to exclude all of his net profit, the dentist received only a $13,633 Sec. 911 exclusion and actually paid tax on $30,088 of normally deductible business expenses. A hypothetical tax return showing the dentist's calculations is attached as Exhibit B. Also attached as Exhibit C is a copy of page 9, IRS Publication 54, containing the instructions for Sec. 911(d)(2)(B) and Sec. 911(d)(6).

The obvious tax saving solution is for an entrepreneur to incorporate and take a salary if he wishes to claim the full benefits of Sec. 911. There are, however, many situations in which it is impossible to incorporate. Many countries do not allow a majority foreign ownership of corporations and few countries allow professionals to incorporate. In addition, there are the added expenses and record keeping burdens of setting up and maintaining a foreign corporation. Not the least of these is the requirement to make an annual information return to the IRS on Form 5471 (copy attached as Exhibit D) comprising eight pages of schedules and twelve pages of instructions.

These examples show conclusively that individual entrepreneurs working overseas are discriminated against under of Sec. 911. Extending the full Sec. 911 exclusion of the relatively small number of taxpayers involved would make little difference to the Treasury but would mean a great deal to those individuals affected. Only three changes are needed:

(1) Delete Sec. 911(d)(2)(B);

(2) Modify Sec. 911(d)(6) so that it applies only to the deduction or credit of foreign taxes paid on excluded income; and,

(3) Make the Sec. 911 exclusion annually elective.

These revisions should be made retroactive to cover the 1982, 1983, and 1984 tax years.

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APPENDIX Y: SELECTED ARTICLES FROM THE ASIAN PRESS

1. The Japan Times, August 8, 1985

GIBBONS WANTS JAPAN TO CUT SURPLUS TO $15 BILLION

Sam Gibbons, chairman of the U.S. House subcommittee on trade, Wednesday urged Prime Minister Yasuhiro Nakasone to see to it that Japan reduces its trade surplus with the United States by more than half to $15 billion by 1990.

Gibbons, nine other House members and their wives called on Nakasone at the prime minister's official residence.

During the meeting, Gibbons said he prefers an increase in Japanese purchases of American products through the opening of Japan's market, expansion of domestic demand and a higher standard of living to curbing Japanese imports into the U.S., Japanese officials said.

He suggested that Japan set up a target, such as decreasing the trade imbalance figure from the $36.8 billion in 1984 to no more than $15 billion in five years, according to the officials.

Nakasone replied he would consider making the reduction of the trade imbalance a national goal, but without setting specific figures. Observers said the setting of specific surplus cuts sounded like a planned economy, observers said.

Japan is now making policies to expand domestic demand and investment while trying to see to it that there will be no torrential exports of certain goods, Nakasone told the congressmen.

Nakasone asked them not to make casually such comments as "it is too late to hold back protectionist legislation in the U.S. Congress" because he said such comments cause a backlash and trigger opinions in Japan that Japanese market-opening efforts are useless and that there should be no such measures.

Gibbons said he would keep that warning in mind. Richard Schulze, R-Penn., one of the visiting congressmen, has repeatedly made the comment that Japan's market-opening moves have come "too late."

Gibbons and his group also met with Masumi Esaki, chairman of the ruling Liberal-Democratic Party's international economic affairs committee, and discussed Japan-U.S. trade problems.

Gibbons made a similar proposal to set a five-year target for reducing Japan's trade surplus.

Esaki told Gibbons that as an emergency step, until the action program produces visible results, Japan hopes to buy about $5 billion worth of communications satellites and aircraft to boost Japan's imports from the U.S. to $96.1 billion in 1985 from last year's $91.1 billion.

Shultz said the U.S. government is currently studying the program and that he appreciates the efforts made by the Japanese government in its compilation.

But he said the action program must entail tangible results, reiterating a July 30 U.S. government statement to the effect that it is reserving judgment on the program until its effect on U.S. exports is apparent.

Referring to the "tangible results" mentioned by Shultz, Matsunaga told reporters later that he believes they involve such matters as Japanese imports of U.S.-made communications satellites and electronic appliances.

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2. The Asian Wall Street Journal, August 9–20, 1985

VISITING CONGRESSMEN WARN JAPAN OF MOUNTING U.S. PROTECTIONISM

TOKYO (AP).—Saying every billion dollars in U.S. trade deficit cost 25,000 jobs, a group of nine congressmen Thursday warned Japan that trade relations have reached a "critical" point.

Unless Japan reduces some of its huge trade surplus with the U.S. support in Congress would increase for 57 protectionist legislation awaiting action in the House

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Ways and Means Committee alone, Rep. Sam M. Gibbons said in a news conference at the end of his five-day stay in Tokyo.

"The time is very, very late and the situation is very, very critical," Mr. Gibbons said at the news conference at the U.S. Embassy here. "We cannot overstress the seriousness of the situation."

The U.S. trade deficit with Japan reached $36.8 billion last year, according to U.S. Commerce Department figures.

Mr. Gibbons chairman of the committee's trade subcommittee, earlier in the week told Japanese Prime Minister Yasuhiro Nakasone that Japan should reduce bilateral trade surplus with the U.S. to not more than $15 billion in five years.

"There are 57 bills in the trade subcommittee . . . all of which . . . you would have to classify as attempts to close the American market. Many of them are aimed at Japan specifically," Mr. Gibbons said before leaving for his next stop, China.

The congressional delegation's visit to Tokyo is to be followed next week by newly appointed U.S. Special Trade Representative Clayton Yeutter and Senate Republican leader Robert Dole later this month.

Mr. Gibbons said the first bill to come to a vote sometime after the summer recess will probably be a textile bill that would immediately cut by 15% Japanese textile exports to the U.S.

Another bill under consideration would require a 25% surcharge to be place on all Japanese goods coming into the U.S. unless Japan reduces its trade surplus.

Mr. Gibbons and other congressmen said the Japanese government's July 30 "action program" to open Japanese markets to more imported goods was "fine" but not enough to satisfy Congress now.

"The action program . . . is fine, but we look for results," Mr. Gibbons said. "It is results that count, and not a program. And we have been disappointed in the past with other programs."

The congressmen, from Ohio, South Carolina, Texas, Arkansas, Oklahoma, Minnesota, Pennsylvania, California and Florida, said the U.S. trade deficit with Japan will reach $50 billion this year, which would account for one third of the entire U.S. deficit.

"This is no longer a question of trade and economics—it is a political question—and it must be addressed politically," Rep. Carrol A. Campbell said.

"There are many things the Japanese government can do," including making determined efforts to buy U.S. goods "from raw materials such as coal to high-tech items," Mr. Gibbons said.

Later in the day, Mr. Gibbons arrived in Peking for a four-day visit to discuss a textile trade dispute with China and China's most favored nation status as a trading partner.

"We have legislation before Congress that would severely limit textile trade with China and have received from your government a very strongly worded letter of the impact this would have on U.S. China relations," Mr. Gibbons told Ye Lin, a member of the standing committee of the National People's Congress and vice chairman of the Financial and Economic Committee.

A bill in the House of Representatives on the textile issue would cut Chinese textile exports to the U.S. by 58%. It already has 295 sponsors. Textiles and garments are among China's major foreign exchange earners.

Washington is "anxious to examine the status (of most favored nation) and improve our trade relationship," Mr. Gibbons told Mr. Ye upon arrival at Peking's airport. China is on a one-year probation from receiving the trade status.

"We know that if we work skillfully and energetically, there will be room for all to prosper," Mr. Gibbons said.

"In reply, Mr. Ye said Chinese President Li Xiannian had just completed a "highly successful visit" to the U.S. and added, "We hope that the visit of the Gibbons delegation will also be successful and promote friendship between our two peoples."

The U.S. representatives are to meet with members of Mr. Ye's committee, officials of the Ministry of Foreign Economic Relations and Trade, American businessmen in Peking and representatives of the National Council for U.S.-China Trade. They are to have China Sunday.

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3. The International Herald Tribune, August 12, 1985

China Threatens Retaliation Over U.S. Textile Bill

Beijing.—The leader of a U.S. congressional trade delegation said Sunday that China has made clear it would retaliate by cutting off trade in other areas if a bill to restrict textile imports becomes law in the United States.

"They let us know in no uncertain terms . . . they would have to cut off other trade with us." Representative Sam M. Gibbons, a Democrat of Florida, said after three days of talks in Beijing.

Mr. Gibbons said Chinese delegates did not say what U.S. goods would be affected by a possible retaliatory action. "High-technology goods are not likely to be affected," he said. "But they could cut off access to our goods."

At stake in the growing dispute is more than $6 billion in annual U.S.-China trade, six years after the two countries normalized relations. According to U.S. figures, China exported $1.29 billion worth of textiles and garments to the United States in 1984, making it China's largest customer for these goods.

Mr. Gibbons, chairman of the trade subcommittee of the House Ways and Means Committee, said that one solution his nine-member delegation had proposed was diversification into other products.

He said that China's productive capacity and inexpensive labor should be tapped for other exports, rather than flooding the U.S. marketplace with low-cost fabric and apparel.

The delegation was split on the proposed Textile and Apparel Trade Enforcement Act of 1985, which would protect the U.S. industry by slashing textile imports into the United States. China's imports would be cut off by 55 to 58 percent under the bill, due for action this fall, Mr. Gibbons said.

Mr. Gibbons and Representative Bill Frenzel, a Republican of Minnesota, said they opposed the measure.

"There's a good chance it won't pass," Mr. Frenzel said, noting that the Reagan administration opposes the bill.

But Representative Carroll A. Campbell, Jr., a Republican whose district in South Carolina is heavily dependent on the textile industry, supports the proposal.

He said that 13 to 14 percent of the United States' $150-billion-foreign trade deficits is due to imported textiles.

"Each billion dollars accounts for 25,000 U.S. jobs," Mr. Campbell said. "China is but a small part of the problem," he added, acknowledging that the bill probably would do more damage to Hong Kong, Taiwan and South Korea.

China has said that the proposal would cost it more than $500 millon a year, one-sixth of its exports to the United States. Textiles comprise 35 percent of China's world-wide exports.

China "has very determinedly let us know in writing and in talk that this would be a very serious matter," Mr. Gibbons said, "and they would have to retaliate in some form."

He reported "some progress" in talks with Vice Premier Tian Jiyun; Wei Yumin the vice minister for foreign economic relations and trade, and members of China's National People's Congress, but declined to give details. *(AP, Reuters)*

EARLIER WARNING PRINED

The warning issued to the congressional group was not the first issued by China on the U.S. proposal. The Washington Post reported from Beijing.

The official Beijing Review said in the July 22 issue that the proposed legislation has "sparked a crisis in Sino-U.S. trade relations." The commentary, written by the magazines's economics editor said that the bill would violate the Chinese-U.S. Textile Agreement and Multi-Fiber Arrangement.

"China's textile industry produces its most important export products," the commentary said. "As such, the impact on China's economy and its foreign exchange earnings resulting from a sharp drop would inevitably have a negative impact on China's importations from the United States.

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4. The Nation, Bangkok, Thailand, August 19, 1985

GIBBONS TO GET STRONG AIDE-MEMOIRE TODAY

GIBBONS: JAPAN, EEC MUST OPEN MARKETS WIDER

Thailand will today hand over an "aide-memoire" to a visiting Congressional delegation led by Sam Gibbons during official talks to protest against the pending Thurmond-Jenkins Bill which will inflict "irreparable damage" to Thailand's textile industry thereby seriously undermining this country's economic well-being.

ASEAN senior officials will also submit a memorandum to the U.S. delegation, according to Deputy Industry Minister Chirayu Isarangkun Na Ayuthaya who chaired yesterday's ASEAN officials' meeting to finalize the memo.

Sam Gibbons last night told a dinner party at the Oriental Hotel that he had always upheld the philosophy of free trade which should benefit trading partners concerned. He said the U.S. has imported about 58 per cent of total export from all developing countries while Japan's figure in this connection is only eight per cent.

Gibbons also said that European Economic Community (EEC) members should also buy more from developing nations.

Gibbons said in his brief speech that developing countries such as Thailand should join hands with the U.S. to persuade Japan and the EEC to open their markets wider to developing countries.

He did not comment on the controversial Jenkins Bill in his dinner speech, saying only that he hoped that his discussion today with Thai leaders and businessmen as well as Thai MPs will make for better understanding on both sides.

Last night's dinner was hosted by U.S. Ambassador to Thailand William Brown who told the function that he was impressed with the warm welcome given to the U.S. Congressmen on Saturday by a group of female Thai textile workers in front of the Oriental Hotel, saying that the friendly reception was a Thai way of expressing concern over a genuine problem.

Brown said that he personally could sympathize with the concern expressed by the textile workers because his mother-in-law, who had migrated from Greece, was also a textile worker in the New England area in the U.S. before the textile mills were closed down and moved to the south to pave way for other industries.

During the talks which will be held at the Foreign Ministry beginning at 9:15 am, the Thai side may suggest some possible "tradeoffs" if the U.S. Congressmen believe the Jenkins Bill could be defeated.

In general, it has been suggested that Thailand will take into account U.S. concern over Thailand's decision to jack up import duties, particularly on wheat, in the future. Thai officials have discussed the pros and cons of such "tradeoff offers" but no firm decision has been made although one source said that a suggestion was made to the effect that Thailand could reduce the import duty on wheat by about 50% from the level which came into effect last April.

The Thai delegation, comprising senior government officials, business leaders and Members of Parliament, will make it plain that Thailand has been distressed and concerned over the rise in U.S. protectionism.

A senior Thai delegation member said Dr Chirayu will inform the U.S. Congressional team that Thailand considers the relations between Thailand and the U.S., described as "deep-rooted and multi-dimensional" in its totality and that economic ties could not possibly be isolated from political and security relations.

The Thai aide-memoire will be wide-ranging covering not only the Jenkins Bill but also other protectionistic trends in the U.S. against Thai imports such as renewed efforts to increase tariffs on Thai canned tuna exports, the countervailing duties (CVD) investigations against Thai manufactured exports, the recently introduced Bonus Incentive Commodity Export Programme (BICEPS), the reviews of the U.S. sugar quota allocations and the new US GSP scheme.

Chirayu will urge Congressman Gibbons and his delegates to reject the Jenkins Bill and to consider alternative arrangements based on multilateral approach.

The Press was again barred from night's functions hosted for the visiting Congressional delegates at the Oriental Hotel. Gibbons, chairman of the Subcommittee on Trade of the House Ways and Means Committee, arrived here on Saturday and was welcomed by a large number of textile workers in front of the Oriental Hotel where the U.S. delegates are staying.

"Gibbons is known to be against the Jenkins Bill although some members of the visiting delegation might have expressed support for the bill. We will try to be polite but firm and will explain facts and figures to explain how devastating the

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bill, if passed, will be for small, friendly nations like Thailand," said a senior official in the Thai delegation.

ASEAN senior officials met yesterday to draw up the ASEAN memorandum of ASEAN-US trade relations. Dr. Chirayu said the memo will explain ASEAN position vis-a-vis the U.S. in trade and the strong opposition in this region against Jenkins Bill. "The memo will also stress that the U.S. has always championed the cause of free trade but the Jenkins Bill will do serious harm to Washington's reputation in this regard," he said.

ASEAN officials agreed during yesterday's meeting that while an ASEAN aide-memoire will be handed over to the Gibbons delegation to stress the opposition to Jenkins Bill, the importance of multilateral trade negotiations (MTN) and GSP issues, each ASEAN country will also read an opening statement during the ASEAN meeting with the U.S. Congressional team.

The Thai aide-memoire will also emphasize that the rising tide of protectionism in the U.S. has eroded the open world trade system. Thailand and ASEAN would welcome an early preparation for the launching of the New Round of Multilateral Trade Negotiations.

"We fear that the recent surge in protectionism, particularly from the U.S. Congress, will under the U.S. Administration's efforts to liberalize world trade and cause the New Round of Multilateral Trade Negotiations to lose the momentum it had recently gained," another Thai official said.

Chirayu is expected to point out during the meeting today with Gibbons team that the Jenkins Bill will be the most restrictive legislation that violated the multi-fibre arrangement (MEF) provisions and existing U.S. bilateral agreements.

The Thai will point out that while Thai trade with the U.S. is relatively negligible from the U.S. point of view, the U.S. is an important market for Thailand.

But the Jenkins Bill, if passed, could cut back Thai textile exports to the U.S. by 64% and will drastically cut Thailand's foreign exchange earnings as well as employment of more than 600,000 persons, while total Thai exports to the U.S. could be reduced by 15%.

The Thai approach in the talks with Gibbons term will be far from "tough" although it is the intention of the Thai government to deliver a "forceful message" to the American Congressmen so that the "true feelings" of the Thai and ASEAN members are relayed back to Washington with impact.

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5. The Asian Wall Street Journal, August 20, 1985

ASEAN Sees Its Members Harmed by U.S. Textile Bill

(By Richard Borsuk)

Bangkok.—Members of the Association of Southeast Asian Nations said Monday that their economic progress is threatened by proposed legislation in the U.S. Congress to protect American industries.

A statement by officials of the six-nation group said they are worried that such legislation would "seriously hurt ASEAN economies. Not only jobs, but the economic progress made by ASEAN is at stake.

"As developing countries, we are particularly vulnerable to American protectionism," the statement added. "There are bound to be political and security repercussions."

UNDOING U.S. POLICY

The statement asserted that the Jenkins bill, which aims to restrict textile imports, would "undo much of the policy of the U.S. to promote growth in friendly developing countries for globe strategic reasons." It said the bill would "drastically cut ASEAN textiles exports to the U.S. and do irreparable damage to the ASEAN textile industry."

ASEAN is made up of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei.

The statement was presented during a meeting of ASEAN officials and eight U.S. congressmen. The U.S. delegation, led by Democratic Rep. Sam Gibbons of Florida, chairman of the trade subcommittee of the House Ways and Means Committee, arrived Saturday in Bangkok on a tour of several Asian countries.

Although the congressmen intended to discuss general trade matters in Bangkok, their agenda was dominated by talk about the Jenkins bill. The bill was drafted by

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Democratic Rep. Ed Jenkins of Georgia, who is chairman of the congressional textile caucus.

The measure, which has drawn strong congressional support, would restrict U.S. textile imports from many Asian nations. The Reagan administration has said it opposes the bill.

The Jenkins bill was introduced in March. Initially, there was little reaction in Bangkok, but when textile companies and government officials here became aware of the bill's implications, they began a campaign against the measure.

Although some Thai officials have warned that passage of the bill would lead to retaliatory trade measures, there wasn't any mention of this at the meeting. When the U.S. congressmen visited Peking last week, Chinese officials told them they would retailiate against the U.S. if the bill passes.

DESERVES BETTER TREATMENT

In a 13-page aid-memoire given to the delegation, the Thai government said efforts by the U.S. to narrow its trade deficit "aren't being directed at the real sources of the problem." It said Thai exports are "too small to have any significant impact on the U.S. industry."

The Jenkins bill "penalizes Thailand for an import problem which it's not causing," it said, adding that the proposed legislation would put a "disproportionate burden on Thailand."

Thai officials also argued that Thailand deserves better treatment because of its good relations with the U.S. and because it is a "front-line" state bordering communist countries.

At the news conference Mr. Gibbons said he agreed it would be "unfair to ask a country the size of Thailand to share more of the burden than it should."

Democratic Rep. Beryl Anthony of Arkansas, a delegation member and a co-sponsor of the Jenkins bill, said he would vote for the bill even though he is sympathetic to Thailand's concerns.

Mr. Anthony said he had been told that the bill would result in 100,000 Thais being laid off jobs. But he said 400 women in his district had just been put out of work by the closure of a textile factory.

Mr. Anthony also criticized Thailand for protecting its markets through duties on cotton and wheat, a ban on the import of soybeans, and other measures he said hurt his district. He said that if Thailand took action to make its markets more open, he would support a compromise on the Jenkins bill that would make it easier for Thailand.

Asked how far he would agree to compromise on amending the Jenkins bill, Mr. Anthony said he would soften his "position up to the point it won't get me defeated in 1986."

LARGEST INDUSTRY

The textile industry is Thailand's largest, and textiles are its largest non-agricultural export. The textile industry employs about 600,000 workers.

The U.S. delegation told Thai officials Monday what they already had concluded: The Jenkins bill is certain to pass because more than half of the congressmen already have signed on as sponsors.

Thailand hopes the bill would be vetoed by President Ronald Reagan and there won't be enough congressional support to override the veto.

Mr. Gibbons, who opposes the bill, said at a news conference he "guesses" Mr. Reagan would veto the measure and there won't be enough votes in the Senate to override him. A two-thirds majority vote is needed to overrule a presidential veto.

Democratic Rep. Donald Pease of Ohio, however, said he thought a veto might be overridden. If the bill isn't voted on until 1986, he said some senators up for reelection that year may vote for it because of pressure from voters who want action of the U.S. trade deficit.

Thai officials say the bill's passage would result in 64% cut in Thailand's textile exports to the U.S. The U.S. accounted for about 37% of Thailand's textile exports in 1984 that were valued at about $290 million.

According to a Thai government paper prepared for the U.S. delegation, three other ASEAN members stand to lose from the Jenkins bill. It said Indonesian textile exports to the U.S. would decline 81%, Philippine textile exports would fall 21% and Singapore textile export 2.6%.

The ASEAN exporters are small compared with South Korea and Hong Kong. According to Thai figures, Thailand last year accounted for 2.08% of U.S. textile im-

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ports, Indonesia had 2.62% and Singapore 1.37%, compared with 13% for South Korea and 10.3% for Hong Kong.

All these Asian nations come under the Jenkins bill, which applies to "major exporting countries" that supply more than 1.25% of annual U.S. consumption of textiles. The bill exempts members of the European Community, Canada, Mexico and Caribbean countries from its provisions.

Since Thailand was the only ASEAN stop on the U.S. delegation's itinerary, ASEAN officials asked for a session with the delegation since the Jenkins bill affects several member nations.

In the meeting, ASEAN argued that the Jenkins bill is unfair and discriminatory because it excludes some countries. ASEAN officials also said the bill violates provisions of the current Multi-Fiber Arrangement governing world-wide textile trade.

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